# RESEARCH IN CORPORATE SOCIAL PERFORMANCE AND POLICY

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# RESEARCH IN CORPORATE SOCIAL PERFORMANCE AND POLICY

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# INTRODUCTION

This is the fourteenth volume of *Research in Corporate Social Performance and Policy*. The series began in the 1970s, an outgrowth of the vision and early collaboration of the late Raymond Bauer of the Harvard Business School, and Lee E. Preston, of the University of Maryland, the founding editor of this series. JAI Press' unstinting commitment to the development of high-quality research volumes, destined for both the personal libraries of practicing scholars in the field and the research libraries of academic institutions, has made possible the sharing of research studies by more than 100 scholars in the business and society field over the life of the series.

Academicians owe JAI Press a debt of gratitude for staying the publisher's course, even in the face of university budget reductions that have eviscerated funding for current publications in recent years.

The existence of a high-quality "journal of record" is essential to the development of academic fields of study. Such publications are part of the institutional framework that facilitates the sharing of scholarly ideas, the replication and testing of others' theories, and the advancement of understanding. There is a practical value to such publications as well: those who read the papers, even many years later, can more fully comprehend the paths taken, and not taken, that have guided the debate and decisions about pressing issues of the time. History does teach, and journals such as this one are invaluable if we are to understand Clio's lessons.

## PUBLIC AFFAIRS AND POLITICAL ACTION

This volume features a collection of papers that address the world of public affairs and corporate political action at the national and international levels. This is surely one of the first books published to include such a variety of papers discussing original research on international business-government relations and public affairs management.

Kathleen Rehbein and Stephanie Ann Lenway have studied the factors that determine success and failure in International Trade Commission "escape clause" investigations. Their conclusion is, in part, that a set of structural and behavioral influences are at work and help predict ITC outcomes. A similar mix of structural and behavioral influences are at work in understanding the way in which the international ozone protection policy was worked out, according to author Kathleen Getz. Her study of corporate political tactics reexamines the strength and the limitations of thinking about political action in terms of principal-agent relationships.

Political scientist Cathi Martin has previously written on tax reform legislation as an arena in which corporate and other interests and ideologies are adjusted. Her paper derives a number of lessons from the history of the 1986 tax reform act. At a time when President Clinton's approach to tax reform is just beginning its predictably tortuous path through the United States Congress, the lessons of history may be both timely and timeless.

Part II presents public affairs management in three political settings: the United States, Australia, and Europe. The U.S. study was conducted under the auspices of The Foundation for Public Affairs, an organization that is affiliated with the Public Affairs Council (PAC), the leading professional association for U.S. public affairs managers. The Foundation and PAC staffs have long worked with the academic community to facilitate research and understanding on wide range of business and society issues.

The study of Australian public affairs management was conducted by Geoff Allen and his colleagues at the Centre for Corporate Public Affairs, which is affiliated with the Graduate School of Business at the University of Melbourne. The center links the academic and practitioner communities in Australia in many of the ways that the Public Affairs Council functions in the United States.

The study of how U.S. multinational corporations manage public affairs and government relations in Europe was conducted by an interuniversity consortium of researchers coordinated by Jeffrey Lenn. This study, which was initiated as a project of the International Association of Business and Society (IABS), provides an up-to-date look at how companies are practicing public affairs in the "new Europe."

Craig Fleisher has studied public affairs management in the United States and Canada, and his paper on how public affairs performance is being

evaluated and measured in modern companies provides insights into what is valued, and how, in current public affairs practice.

Part III of the volume contains two perspectives papers. Mark Starik and Chandra Gribbon have studied the European business community's response to environmental issues and provide a perspective on an emerging global model of business environmentalism. Thomas Vetica, an anthropologist, takes a lengthy look at the modern corporation's development and discerns important themes that help explain the corporate political behavior of the business community.

The mission that Raymond Bauer and Lee Preston defined for this research series fifteen years ago remains its raison d'être in the mid-1990s. The ways in which business and society relate to each other,—through markets, public policy, and other forms of behavior—deserve the careful consideration of academics and practitioners. This volume continues that commitment in ways that are fresh, timely, and of interest.

James E. Post
Editor

# PART I

## THE CORPORATION AND POLITICAL ACTION

# INDUSTRY STRUCTURE OR MANAGERIAL DISCRETION:

## THE DETERMINANTS OF INDUSTRY POLITICAL SUCCESS IN THE U.S. INTERNATIONAL TRADE COMMISSION'S ESCAPE CLAUSE INVESTIGATIONS

Kathleen Allee Rehbein and Stefanie Ann Lenway

The growth of government involvement in the market has created strong incentives for representatives of firms and their industries to participate in the political process. Firms have responded by providing financial support to legislators, offering information to legislators and members of the executive branch bureaucracy, and launching grassroots constituency campaigns, among other political activities (Epstein, 1969). While considerable attention has been devoted to explaining why firms choose a specific political strategy (Lenway & Rehbein, 1991; Masters & Keim, 1984; Pittman, 1988; Yoffie, 1987; Zardkhooi, 1985) the information is inconclusive about what determines a firm or an industry's associated payoffs.

**Research in Corporate Social Performance and Policy, Volume 14, pages 3-18.**

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According to the theory underlying economic models of political behavior (e.g., Becker, 1983; Olson, 1965; Peltzman, 1976; Stigler, 1971), an industry's political success depends on its structural attributes, such as market concentration, size and profitability. These structural attributes affect an industry's lobbying efficiency, which ultimately determines its political success. In contrast, management researchers (e.g., Keim & Baysinger, 1988; Yoffie, 1987) and political scientists (Kau, Keenan, & Rubin, 1982; Wilhite & Paul, 1989) emphasize that an industry can manipulate political outcomes through its choice of political strategy and tactics. Management models (Keim & Baysinger, 1982; Keim & Baysinger, 1988; Keim, Zeithaml, & Baysinger, 1984; Yoffie, 1987) contend that corporations incorporating innovative tactics such as grassroots campaigns and broad-based coalitions can achieve favorable political outcomes.

Although political scientists agree with management researchers that proactive efforts affect political outcomes, their concern with the role of wealth in the American political process leads them to assume that even commonly used political techniques, such as campaign contributions, have an impact on political decision makers. Political science models (e.g., Kau & Rubin, 1982; Wilhite & Paul, 1989) have tended to investigate whether corporations can "buy" influence with legislative representatives and policymakers. Some empirical evidence (e.g., Caughlin, 1985; Quinn & Shapiro, 1991) suggests that corporations effectively use their campaign contributions to influence political outcomes, whereas other empirical work (e.g., Welch, 1982; Wright, 1985) indicates the opposite, that campaign contributions do not influence political outcomes.

With the exception of Esty and Caves (1983), little effort has been made to explain political success in terms of the relative importance of industry structure and actions over which managers have discretion. Esty and Caves, in an analysis of Congressional legislation of 35 manufacturing industries, found that an industry's political expenditures facilitated political success by converting an industry's structural attributes into political power. Political expenditures appeared to assist primarily industries with particular structural characteristics.

One shortcoming of the Esty and Cave analysis results from their focus on congressional legislation, in which, it is very difficult to link an industry's political actions with specific political outcomes. In the paper we investigate the determinants of an industry's political effectiveness within the U.S. International Trade Commission (ITC), where political activities lead to very specific outcomes relating to trade protection. Like Esty and Caves, we analyze political success in terms of an industry's political expenditures as well as its structural characteristics. In addition, our study considers other strategic political choices made in the course of filing ITC petitions.

## EMPIRICAL LITERATURE ON THE ITC

Several studies (e.g., Baldwin 1985; Goldstein, 1983; Lenway, Jacobson, & Goldstein, 1990; Takacs, 1981) have examined the determinants of ITC decisions in escape-clause investigations, one of the six different kinds of investigations conducted by the ITC. In escape-clause investigations, Congress has charged the commissioners to determine whether the domestic industry has been "injured" by imports. Unlike antidumping and countervailing duty investigations, an industry does not have to demonstrate that foreign goods have been sold below fair market value or subsidized.

Congress defines "injury" in trade legislation as including, among other factors, a decline in employment, profits, or shipments. In a quasijudicial hearing, the six ITC commissioners review the economic evidence provided by the petitioning industry and dissenting parties, including importers and foreign manufacturers. If the commissioners find injury, they then make specific recommendations to the President concerning import relief. The President may decide whether to accept, modify, or reject the commissioners' recommendation. Because the congressional definition of "injury" is not precise in escape-clause investigations, ITC commissioners can develop their own criteria for identifying an injured industry.

Both economists and political scientists have analyzed various factors leading to the success of escape-clause petitions. Takacs (1981), focusing on general economic conditions and international factors, found that while these influenced petitioning activity, they had no substantive impact on ITC decision. Baldwin (1985) and Goldstein (1983) tested the economic model of political behavior by analyzing a petitioning industry's success in terms of its economic attributes, such as size and profitability. Both Baldwin and Goldstein concluded that the ITC is not influenced by either large or profitable interest group pressures. Lenway, Jacobson, and Goldstein (1990) and Rehbein (1987) tested the principal/agency model to examine whether ITC determinations reflect the preferences of the ITC's congressional oversight committees. Although both studies used slightly different measures of congressional preferences, they found no relationship between congressional preferences for import protection and affirmative escape-clause determinations.

In general, previous research is more effective in explaining why industries do not succeed at the ITC rather than why they do succeed. The results indicate the ITC escape-clause determinations are not directly influenced by economic or political factors. Baldwin (1985) and Lenway, Jacobson and Goldstein (1990) found that less profitable industries were more likely to receive an affirmative ITC decision in escape-clause investigations. Yet, Goldstein (1983)) found that the ITC is more likely to grant import relief to industries that are not suffering from declining levels of employment or facing increasing imports.

Although all these studies examined positive escape-clause decisions, none considered an industry's political efforts to organize and present evidence to the ITC. In a related study, however, Herander and Pupp (1991) analyzed the steel industry's political efforts in countervailing duty and antidumping investigations. They found that large coalitions of steel firms which hired more legal counsel were more likely to receive a favorable ruling from the ITC. In the following analysis, we look at an industry's structure, political strategy, and international competitiveness as factors in its political success.

## Industries Studied

The sample for this analysis consists of those industries that filed ITC escape-clause petitions between 1976 and 1989. Petitioners typically include individual firms, trade associations, trade unions, congressional committees, or federal agencies requesting temporary protection from foreign imports. The 58 industries analyzed here are quite varied, with four-digit Standard Industrial Classification (SIC) codes ranging from 2011 to 3964. Employing between 290 to 80,300 people, the petitioning industries ship $90,000 to $34 billion per year. They also vary in terms of market concentration, from 12 percent to 100 percent.

## Independent Variables

In the economic literature, an industry's structural attributes, such as, market concentration and industry size, determine its political influence (Finger, Hall & Nelson, 1982, p. 457; Salamon & Siegfried, 1977, p. 1031). Industries may increase their political power by solving collective-action problems, which arise because the benefits of legislative and regulatory decisions are not limited to those firms that devote resources to the political process. Rather, incentives exist for less active participants to "free ride" on the investments of others (Olson, 1965, p. 36).

### *Market Concentration*

A continuing debate on the political advantages of industry concentration divides much of the economics and political science literature. Economists generally emphasize the political advantages of a relatively more concentrated industry where the incentives for dominants firms tend to counteract the natural tendency to free ride. Since dominant firms in a concentrated industry receive a higher net return on their political investments, they are more willing to coordinate the monitor the political actions of other member firms (Olson, 1965). In addition, relatively concentrated industries are able to minimize the cost s of negotiating a political agenda among member firms (Salamon and

Siegfried, 1977, p. 1032). Not surprisingly, therefore, Esty and Caves' (1983) empirical findings indicated that relatively concentrated industries were significantly more likely to achieve their legislative goals.

An alternative argument found in the political science literature (Bauer, Pool & Dexter, 1972; Salamon & Siegfried, 1977) suggests, however, that concentrated industries find themselves at a political disadvantage because politicians hesitate to grant favors to small, visible groups of firms. In their study, Salamon and Siegfried (1977) found, for example, that concentrated industries were significantly less able to avoid tax increases. Finger, Hall, and Nelson (1982, p. 461) also found that industry concentration did not contribute to positive-injury determinations by the ITC in countervailing duty and antidumping petitions. They speculated that some of the firms in their sample may have been multinationals and thus not interested in supporting trade protection.

Considering the expected returns from trade protection, as well as the costs of overcoming the free-rider problem, we expect that highly concentrated industries will be more likely to gain favorable decisions from the ITC than unconcentrated industries. To measure market concentration, we use the value of shipments made by the four largest firms.

*Political Opposition*

Economic models of political behavior suggest that an industry's political effectiveness depends on its relative political strength. In these models, political decision-makers favor the group which promises them the most electoral support in terms of votes and financial backing. If there is little or no organized opposition, then the politically active industry is likely to have a political advantage. Esty and Caves (1983) found some tentative evidence that industries facing organized opposition were less likely to be politically successful.

Since income transfers are associated with any decision regarding import relief (e.g., from domestic consumers to domestic producers), the potential for organized opposition does exist in the ITC decision-making process. Two measures are used to assess the relative political strength of groups that may oppose an industry's petition. The first measure, the number of top executives from foreign firms, importing firms, and domestic firms testifying against the petition, indicates an effort to protest against import relief. A second measure, the total number of domestic firms and foreign-owned United States subsidiaries testifying against the petitioning industry, shows the intensity of domestic opposition, as all of these firms are likely to have domestic political backing. Thus, we expect that industries facing strong domestic opposition will be less likely to obtain a positive escape-clause determination from the ITC than those facing weak opposition. We measure "opposing CEOs" using a dummy variable which codes cases where two or more domestic or foreign

CEOs testified against the petition as a one and the rest zero. To measure the impact of domestic opposition, cases in which at least four domestic firms opposed the petition received a one and the rest zero.

## Discretionary Political Involvement

In analyzing an industry's political effectiveness, our interest lies in determining whether its choice of political strategy and tactics has an impact on political outcomes. Do specific political strategies and tactics elicit favorable ITC outcomes regardless of an industry's political attributes, or do political choices play only a secondary role in transforming the political capabilities of industries whose effectiveness has been predetermined by their economic structure (Esty and Caves, 1983)?

### *Industry Political Strategy*

The most fundamental strategic decision made by firms within a petitioning industry is how to approach the ITC. Firms within an industry planning to file a petition face three strategic choices. They can decide: (1) not to participate, free riding on the activities of other firms in the industry or government agencies; (2) to participate through a trade association, or (3) to represent the industry either alone or in a coalition with a few other firms.

Ex ante, it is difficult to predict which of these three strategies will be more effective. By selecting the first strategy, an industry signals a lack of commitment thereby jeopardizing its chance of receiving import relief. Even if a government agency such as the Department of Commerce or the ITC's congressional oversight committees, the Senate Finance Committee or the House Ways and Means Committee, initiates a petition on an industry's behalf, its failure to participate may signal a lack of interest or an even strong disagreement over the desirability of trade protection. An advantage, however, of a government-initiated petition is that it puts considerable political pressure on the ITC commissioners to decide affirmatively (Goldstein, 1983).

Petitioning through a trade association has several political benefits. A trade association has an established mechanism for solving the collective action problem and reaching a consensus on issues. In addition, by filing through a trade association, an industry gives the impression, through an organized collective effort, that it is being hurt by foreign competition: as Herander and Pupp (1991) argue, a larger coalition may be better able to convince ITC commissioners of material injury. However, firms working through a trade association may face high negotiation costs. Deep strategic divisions within the industry can make it difficult for the trade association staff to pursue a coherent political strategy.

Firms willing to represent their industry independently must be willing to bear all of the costs associated with petitioning. For this reason alone, such firms will be strongly motivated to develop a convincing case that demonstrates to the ITC commissioners how seriously they have been injured by imports. Also, given the magnitude of the investment, firms filing alone generally expect to succeed. On the other hand, filing independently or with a few other firms may signal a lack of widespread support for the petition within the industry. Other firms in the industry may oppose the petition and undermine any attempt to demonstrate material injury.

Given the difficulty of evaluating the net return associated with each of these strategic choices, we do not make predictions about the sign of the coefficient for this variable. We develop three dummy variables to classify industries according to the type of political strategy selected.

*Political Tactics*

Having chosen to file an escape-clause petition, managers also have discretion over the types of political tactics used to implement their political strategy. The choices include deciding who will testify on the industry's behalf, how much legal counsel to hire, and how to use congressional allies. We expect that an industry employing these tactics in a coordinated fashion will be more likely to receive a favorable ruling from the ITC commissioners.

We use four variables to measure the effectiveness of an industry's political tactics. First, we identify those industries which had CEOs testify on their behalf. Since CEOs are probably the most prestigious witnesses available to testify about an industry's competitive problems, their testimony as one part of a coherent political strategy should result in an affirmative ITC decision. CEO participation is measured with a dummy where a "one" indicates that at least two CEOs from the industry testified in support of the petition.

Second, we examine the quantity of legal counsel hired by petitioning industries. Following Herander and Pupp (1991, p. 143), we predict that industries with more legal representation are more likely to succeed in the ITC process. A dummy variable identifies which industries were represented in the hearings by more than one law firm.

The influence of an industry's political ties with Congress constitutes a third measure of political tactics. Specifically, we are interested in whether an industry makes political action committee (PAC) campaign contributions to any of the members of the ITC's congressional oversight committees. Although neither Baldwin (1985) nor Lenway, Jacobson, and Goldstein (2990) found any evidence that congressional oversight committees influenced the ITC's decisionmaking process, the impact of industry financial support to these committee members has not been examined. An industry which has established a relationship with members of the ITC's congressional oversight committees

may be able to exert indirect pressure on the ITC commissioners. A dummy variable assesses which industries gave campaign funds to a member of either of the ITC's oversight committees.

To investigate support from other parts of the government, federal, state, and local, we identified the number of federal, state, and local representatives that testified in support of the petitioning industry. Government witnesses can lend credibility to an industry's injury claim and thus may affect the commissioners' votes by describing the effect of import on local communities. We measured government support with a dummy variable indicating those industry hearings where at least one politician testified on behalf of the injured industry.

### International Competitiveness of the Industry

Success at the ITC may also be explained in terms of the international competiveness of the petitioning industry. Thus, we include control variables that measure import and export penetration ratios. Import penetration may also be used by the ITC commissioners as an additional indicator of the injury caused by imports.

The intention of Congress was that escape-clause investigations would provide temporary trade protection for industries unable to compete with imports. If the ITC's decisions reflect congressional intent, then the industries most likely to receive an affirmative decision will be those with relatively high import penetration and relatively low export penetration ratios. We measure import penetration using a ratio of total imports to new supply (product shipments plus imports) at the four-digit SIC level. Export penetration is calculated as the ratio of total exports to product shipments at the four-digit SIC level.

## STATISTICAL ANALYSIS

Since the dependent variable is categorical, we use logit analysis to predict the probability that the ITC will rule affirmatively in an escape-clause petition. The dependent variable, coded as a one, indicates that at least three of the six commissioners recommended import relief for a petitioning industry. A zero indicates that the industry has been unsuccessful in its bid for import relief. Using a logit model guarantees that probability estimates will not exceed the range between zero and one (Pindyck & Rubinfeld, 1976).

Our analysis predicts the probability that an industry with given characteristics will receive an affirmative decision from the ITC commissioners. Using maximum-likelihood procedures, this involves estimating the log of the odds that at least three of the six ITC commissioners will vote affirmatively.[1]

## RESULTS

In Table 1 we report the means, standard deviations, and correlations for the variables used in our analysis. Table 2 gives results of the logit analysis.

The first model reported in Table 2 considers the influence of an industry's structural characteristics on the ITC decision-making process. Surprisingly, we found that with the exception of the opposition variables, the structural measures had little impact. Size, measured by the value of the shipments, had a negative coefficient, but was insignificant.[2] Market concentration had a positive coefficient but was also insignificant, providing only tentative evidence that more concentrated industries are more successful in the ITC petitioning process. At the .05 significance level, our results indicate that petitioning industries were less likely to receive an affirmative decision if there is significant domestic political opposition. Also significant, but having an unexpected sign, was the dummy variable indicating the number of CEOs testifying against the industry.

Also included in the model were the variables assessing import and export penetration. Export penetration, significant at the .05 level, had a negative coefficient, suggesting that an industry with export markets was less likely to receive a positive ruling from the ITC. Import penetration had no apparent impact on the ITCs commissioners' decision.

The second model reported in Table 2 tested the effectiveness of an industry's political strategy. The most significant political variable was an industry's type of political involvement. At the .10 level, we found that industries filing through their trade association were not successful in the ITC process relative to firms that selected a free rider strategy or filed on their own or with a few other firms in the industry. These results also indicate that an industry's specific political tactics had little impact on its probability of success in escape-clause petitions. The number of CEOs testifying for the petitioning industry, the number of law firms hired, and the number of political representatives supporting the petition all had the expected signs, but they were all insignificant.

Measures of competitiveness were also included here as control variables. Export penetration, as in the previous model, was significant and had a negative sign. Import penetration had a positive coefficient but was still insignificant.

The discretionary political model predicted 78% of the ITC's decisions correctly. This is slightly better than the structural attributes model, which predicted only 71 percent of the cases correctly.

In Table 3, we report the results of models which combine some of the structural and discretionary political variables. The first two equations consist of the structural variables and an industry's political strategy. The results are fairly consistent with those reported for the previous models. Opposition variables were the only structural variables which had an impact on ITC

*Table 1.* Descriptive Statistics and Correlations

| *Independent Variables* | *Means* | *s.d.* | *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* | *9* | *10* | *11* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Concentration | 0.55 | 0.28 | | | | | | | | | | | |
| 2. Industry size (Value of shipments) | 1,955,225 | 5,792,477 | −.10 | | | | | | | | | | |
| 3. Opposing CEOs | 1.33 | 1.81 | .31 | .14 | | | | | | | | | |
| 4. Domestic opposition | 2.84 | 3.23 | −.32* | .24 | .46** | | | | | | | | |
| 5. Trade association | 0.47 | 0.50 | −.20 | −.14 | .03 | −.21 | | | | | | | |
| 6. Representative firms | 0.32 | 0.47 | .45** | .14 | −.17 | −.03 | −.64** | | | | | | |
| 7. Supporting CEOs | 1.54 | 1.89 | −.14 | .14 | .28* | .18 | −.18 | .13 | | | | | |
| 8. Legal counsel | 1.24 | 1.25 | −.14 | .61* | .25** | .38** | −.31* | .08 | .27 | | | | |
| 9. Government support | .45 | .50 | −.10 | .25 | .02 | .22 | −.21 | −.09 | .14 | .29 | | | |
| 10. Political Action Committees | .38 | .49 | .24 | .33 | .15 | .14 | −.14 | .03 | .33** | .35** | .18 | | |
| 11. Import penetration | .18 | .14 | .09 | −.09 | .09 | .002 | −.13 | .09 | .36 | .03 | .05 | .48** | |
| 12. Export penetration | .06 | .04 | .22 | −.12 | −.00 | −.34 | .07 | .09 | −.08 | −.13 | −.20 | −.09 | .05 |

*Notes:* * $p < .05$
** $p < .05$

*Table 2.* Results from the Logistic Analysis

| | *Economic Approach* | *Management/Political Science Approach* |
|---|---|---|
| Interscept | 2.63 | 2.29 |
| | (1.48) | (1.64) |
| Market Attributes | | |
| Concentration | 0.99 | |
| | (1.12) | |
| Industry size | −0.00 | |
| | (0.60) | |
| Opposing CEOs | 2.56 | |
| | (2.36)** | |
| Domestic opposition | −1.98 | |
| | (1.69)** | |
| Political Strategy | | |
| Trade Association | | −0.89 |
| | | (1.70)** |
| Representative firms | | |
| Campaign contributions | | −0.42 |
| | | (0.51) |
| Petitioning CEOs | | 0.21 |
| | | (0.28) |
| Political support | | 0.29 |
| | | (0.44) |
| Legal counsel | | 1.02 |
| | | (1.09) |
| Import penetration | −0.55 | 0.15 |
| | (0.21) | (0.13) |
| Export penetration | −7.25 | −3.70 |
| | (2.42)** | (1.86)** |
| Percentage predicted correctly | 71 | 78 |
| *N* | 49 | 50 |

*Notes:* *** $p < .01$ for one and two tailed tests.
** $p < .05$ for one and two tailed tests.
* $p < .10$ for one and two tailed tests.

decisionmaking. Neither industry concentration nor size had an impact on an industry's likelihood of success. Firms filing through a trade association continued to be less likely to succeed in the ITC process. The coefficient on representative firms was positive but insignificant, offering only tentative evidence that industries in which firms independently pursued import relief were more likely to receive an affirmative ITC decision.

*Table 3.* Results from the Logistic Analysis of the Combined Models

| | (1) | (2) | (3) |
|---|---|---|---|
| Intercept | 4.61 | 2.97 | 3.56 |
| | (2.07) | 1.63) | (2.37) |
| Market Attributes | | | |
| Concentration | 0.80 | 0.78 | |
| | (0.80) | (0.82) | |
| Industry size | −0.00 | −0.00 | |
| | (0.51) | (0.77) | |
| Opposing CEOs | 2.91 | 2.60 | |
| | (2.51)** | (2.40)** | |
| Domestic opposition | −2.76 | −2.06 | −1.69 |
| | (2.24)** | (1.78)** | (1.87)** |
| Political Strategy | | | |
| Trade association | −1.82 | | −1.21 |
| | (2.13)** | | (1.69)* |
| Representative Firms | | 0.66 | |
| | | (0.78) | |
| Legal Counsel | | | 1.45 |
| | | | (1.45)* |
| Technical Merit | | | |
| Import penetration | −1.18 | −0.60 | −0.10 |
| | (0.83) | (0.50) | (0.10) |
| Export penetration | −7.,50 | −7.56 | −4.47 |
| | (2..41)*** | (2.42)*** | (2.03)** |
| Percentage predicted correctly | 81 | 73 | 73 |
| *N* | 48 | 49 | 51 |

*Notes:* *** $p < .01$ for one and two tailed tests.
** $p < .05$ for one and two tailed tests.
* $p < .10$ for one and two tailed tests.

Equation (3) looks more closely at the impact of domestic opposition and the use of one of the more effective political tactics, hiring legal counsel. Domestic opposition appears to significantly decrease the chances that an industry will receive an affirmative ITC decision. Filing through a trade association also decreases the likelihood of being successful in the ITC decisionmaking process. Legal counsel, which previously was insignificant, has a positive coefficient and is significant at the .10 level. The competitive criteria also had the same signs and significance levels as in equation one and two.

The number of correct observations predicted ranges from 73 percent and 81 percent. A model combining structural attributes and discretionary political variables predicts the determinants of an industry's political success, as well as, and in some cases, better than the separate models.

## DISCUSSION AND CONCLUSION

The major objective of this study was to discover what determined an industry's political success in the ITC escape-clause investigations. By taking into account the political strategy, tactics, and structural attributes in affirmative escape-clause determinations, we entered into the debate between economists and management/political scientists about the relative importance of management discretion versus industry structure. In contrast to Esty and Caves, we found management discretion to be slightly more important in explaining political success.

The lack of significance of industry concentration and size variables raises questions about inferences taken directly from the collective action framework. Highly concentrated industries, which should have experienced fairly low costs of collective action, are not especially successful in the ITC's decision-making process. Although concentration had a positive coefficient, it was consistently insignificant, thereby suggesting that the ability to control free riders in the petitioning process does not translate directly into a favorable outcome. The negative coefficient for industry size further suggests that success at the ITC does not depend on an industry's investment in the political process nor does it result from broad political networking.

The results for the opposition variables offer the main evidence for the importance of industry structure. Petitioners facing organized domestic opposition were significantly less likely to gain a positive decision from the ITC. Our finding is consistent with Esty and Cave's observation of industries facing organized opposition in the legislative process. Petitioning industries were likely to prevail, however, in the face of testimony from CEOs of foreign and domestic corporations. While this appears counterintuitive at first, perhaps this opposition reflecting the efforts of individual CEOs intensified political efforts on the part of the petitioning industries. Overall, it may be easier for a petitioning industry to counter testimony than the protests of domestic firms who may be damaged if trade protection is granted to the petitioning industry.

Out findings provide mixed support for the assertions in the management literature that an industry's choice of political strategy explains its political success. Basically, we find that filing through a trade association is the least effective approach to the ITC. This result confirms the importance of selecting a distinctive political strategy, one which is not easily imitated (Yoffie, 1987). However, it raises questions with respect to assertions in the economic literature about the importance of solving collective action problems. Trade associations place industries in the best position to solve collective action problems because they provide policing mechanisms, as well as their internal forum for developing a political consensus.

Although we can identify the least successful political strategy, our results are less conclusive about a better alternative. An industry's most proactive

strategy pursuing import relief as individual firms or in small coalitions has a positive, but insignificant impact on the ITC's decisionmaking process. Due to the lack of observations in the free rider category, we would compare only the effectiveness of trade associations versus individual firms.

In terms of political tactics, a petitioner's most effective resource appeared to be hiring a large legal staff. Herander and Pupp's (1991) have likewise found that a petitioning industry with more legal counsel is more likely to gain import relief. Other tactics, such as the testimony of CEOs and government officials, as well as, the strategic use of campaign contributions, had no impact on the ITC process.

With respect to the technical criteria, although these variables were included primarily as controls, they do reflect the relative international competitive strength of industries filing escape-clause petitions. Consistent with the intent of Congress, industries with strong export markets were less successful in the ITC process. According to these results, industries with success in export markets should hesitate to file for import relief. Interestingly, even though Congress specified that imports weigh heavily in a finding of injury, import penetration does not appear to play an important role in escape-clause investigations.

We drew several implications from our analysis for industries wishing to improve their chances of success at the ITC. One, because large, highly concentrated industries are not especially successful at gaining trade protection, industries that face collective action problems should not be deterred from seeking import relief. Two, industries should identify their political opposition and determine whether their political opposition is primarily symbolic. If import relief will hurt other domestic firms, then they may organize to oppose the petition. As a result, petitioning industries may have to intensify substantially their political efforts. Three, petitioning through a trade association does not appear to improve an industry's chances of success at the ITC. This suggests that small coalitions of firms developing a unique political strategy may be able to achieve a more favorable outcome. Four, the most productive use of resources involves increasing the number of law firms used to make a case for injury. In summary, we conclude that decision over which firms have some discretion appear to be more important than an industry's structural attributes in predicting success at the ITC.

Future research needs to focus on developing a comprehensive theory of corporate political success. Concepts from the management, economics, and political science literature need to be incorporated into a unified theoretical framework to explain what managers consider when making political decisions. Given the results regarding the success of petitions filed by trade associations, future research also needs to provide a more precise understanding of effective political strategies and tactics for individual firms.

## NOTES

1. In order to reduce the instability of our data set and minimize the weights of the extreme values, we computed arc sin transformations for the variables which were proportions. These include industry concentration and import and export penetration ratios.
2. Although we reported the results of only one of our size variables, the results were the same when the other size variables, the number of employees, was used.

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# CORPORATE POLITICAL TACTICS IN A PRINCIPAL-AGENT CONTEXT:

## AN INVESTIGATION IN OZONE PROTECTION POLICY

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Kathleen A. Getz

For some decades, corporate political activity (CPA) has been a subject of interest to managers and scholars from such diverse disciplines as management, economics, political science, and sociology. The literature in the field can be divided into four categories: (1) works that document the growth and extent of CPA (e.g., Epstein, 1969; Ryan, Swanson & Bucholz, 1987); (2) works that delineate a variety of techniques used in CPA (e.g., Berry, 1977; Epstein, 1969); (3) works that describe the characteristics of firms that engage in CPA (e.g., Baysinger, Keim & Zeithaml, 1987; Epstein, 1969; Keim, Zeithaml & Baysinger, 1984; Masters & Baysinger, 1985; Pittman, 1977); and (4) works that show the importance of CPA as part of a firm's overall corporate strategy (e.g., Keim, 1981; Mahon, 1983, 1989; Marcus, Kaufman & Beam, 1987). Much of the empirical work in CPA has been atheoretical. It has been driven by the availability of data, rather than by well-constructed theoretical questions, a

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problem induced by the dearth of basic theories about CPA. So, despite more than 20 years' history of study of CPA, we still know relatively little about the political participation of business as a whole or of individual business firms.

One area that has received little theoretical or empirical attention is the question of choice of particular political activities in different situations. We know little about the appropriateness of the various CPA tactics given different contingencies in the policy or issue environment. While scholars interested in corporate strategy have developed an extensive literature describing and prescribing business behavior in a wide variety of situations, this understanding of strategic behavior does not extend into the area of political activity. Given the importance of the link between political activity and corporate strategy, it is surprising that this area of inquiry remains underdeveloped. Several scholars have noted the lack of work in this area. Preston, for example, observes that "...the desirable mode and level of corporate political influence...remains undefined...The significant studies will be those that specify more clearly the conditions under which political activity of different types and levels produces (or fails to produce) different kinds of effects" (1986, pp. 268-269). The purpose of the present work is to begin to fill this void. Before defining the theoretical framework of the study, the research context is described so that the model may be specified in terms of the context.

The case of ozone depletion was used as the research context for this study. Numerous public policies have been promulgated regarding the issue of ozone depletion. The institutions that have advanced policies range from local city councils to global organizations. The most far-reaching of these policies is the Montreal Protocol on Substances that Deplete the Ozone Layer, negotiated under the auspices of the United Nations Environment Programme (UNEP). It was signed in 1987 and effected in 1989. All policies related to the ozone-depletion issue were relevant to the empirical study. For several reasons, however, the Montreal Protocol was selected as a focal point of the study. It was and is the paramount policy on ozone depletion; sufficient information about the policy itself could be readily attained; the policy had developed through the issue life cycle so that any changes in CPA over the course of issue development would be traceable; and the historical development of the issue was recent enough that information regarding corporate decisions and CPA would not be obscured by inaccurate archival data or fuzzy memories. Additionally, although many firms initially resisted governmental attempts to control the production or consumption of ozone-depleting substances, eventually, most firms agreed that controls were appropriate and they began to take positive measures to reduce their reliance on these substances. It was likely that firms viewed their own actions as socially responsible and that they were not reluctant to divulge information about their actions. Thus, this was a topic about which firms might be eager to share information, favorably influencing the overall response rate. Most importantly, this policy entailed

variability in all but one of the variables defined by the theoretical model, as explained below.

## THEORETICAL FRAMEWORK

This study is descriptive rather than explanatory, and is driven by the theoretical model depicted in Figure 1. The model itself is derived from existing literature in corporate political activity and is structured with the tools of agency theory. A firm's choice of political tactics is related to the targets of political activity and the nature of the issue of concern, and the agency problems presented to the firm as a result of that issue (Getz, 1993). The relationships among these variables are moderated by some characteristics of the firm. These variables are described briefly. Where appropriate, specific reference is made to the issue of ozone depletion.

### Corporate Political Tactics

A corporate political strategy is that particular set of political activities selected to address a firm's concerns and meet the firm's objectives on a specific issue in the public policy arena. This definition is derived from the definitions (implied or stated explicitly) of Epstein (1969), Keim (1981), Mahon (1989) and Marcus, Kaufman, and Beam (1987). Multiple tactics of corporate political activity (CPA) may be used by firms in trying to influence policies that affect them. Tactics are specific actions taken to advocate certain policy positions. There are a wide variety of tactics and scholars have sorted them in many ways (see e.g., Berry, 1977; Epstein, 1969; Keim & Baysinger, 1988; Oberman, 1991). Here, they are grouped into seven broad categories: lobbying; reporting research results; reporting survey results; testimony; legal actions; personal service; and constituency building. Political action committees (PACs) are intentionally excluded because they constitute an electoral rather than governmental activity, and as such have little direct impact on public policy outcomes in specific issue areas (Epstein, 1969).

Lobbying is direct communication between representatives of an interest group and political decision makers (Berry, 1977). Here, lobbying is defined as direct contact between a registered lobbyist who is representing the firm and a public policy maker.

Many firms conduct research, both technical and nontechnical. Reporting the results of scientific research to political decision-makers allows business to share newly learned data about the issue of interest and influence policy through education of public officials. Frequently, nontechnical, business research takes the form of public-opinion surveys, usually conducted or contracted by public relations departments. Reporting the results of such

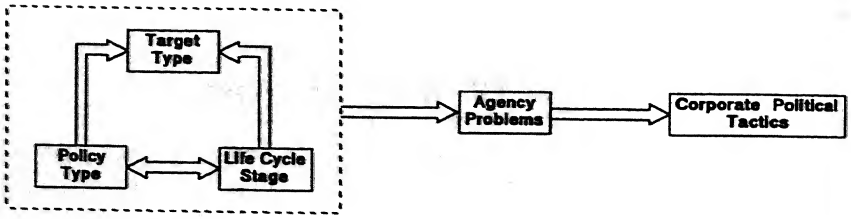


*Figure 1.* Model of Corporate Political Tactics

surveys informs policy makers about changing attitudes among their constituents, rather than about scientific or technological progress. Survey results imply that voters will hold policy makers accountable for their actions on particular issues in forthcoming elections.

Presenting testimony at Congressional or administrative hearings occurs fairly routinely in the United States. Congressional committees welcome the testimony of industry representatives and most administrative bodies are required by statute to inform interested parties of the intended issuance of administrative rulings so that they can present their views on the matter.

A number of different activities that take place within the judicial branch of the government also provide opportunities to affect policy. Corporate litigation may serve to delay the application of unfavorable rulings or the enforcement of legislation or may permit the interested party to attempt to shape the interpretation of new laws or regulations. By threatening the use of legal procedures, a firm may be able to forestall unfavorable governmental activity (Epstein, 1969). Firms may also "race to the courthouse" to establish a sympathetic court as the court with jurisdiction (McCaffrey, 1982). Corporations may seek access to the court through amicus curiae status, which permits them to submit briefs or to join in the oral argument of relevant issues, even if they are not a party to the litigation.

Service by corporate leaders in official government posts, either while on leave from corporate duties or while actively involved in company activities, has potential political benefits for the corporation. Corporate managers may serve at the federal cabinet level, in line or staff positions in executive and administrative departments, or as consultants or members of special committees or task forces. In any of these positions, the manager may influence policy.

Constituency building refers to corporate efforts to identify, educate, and motivate to political action those individuals who may be affected by public policies that have an impact on the corporation (Keim, Zeithmal, & Baysinger, 1984). The constituency may include any or all of the firm's stakeholders, such

as employees, shareholders, suppliers, dealers, residents of the communities in which the corporation has a significant presence, and even the general public.

## Target and Issues

Three variables interact to influence the choice of tactics in CPA: target of political activity; issue or policy type; and issue life cycle. The values of the variables that are relevant in the present study are identified and the nature of the interaction between target type, policy type, and issue life cycle is briefly noted in the discussion of propositions.

### *Targets*

A target is defined as an individual, group, or organization at whom CPA is directed. Few scholars have considered CPA targets explicitly. A typology of targets with 48 general types, based on four descriptors, is presented in Figure 2. The typology helps categorize targets and determine their impact on tactics selection (Getz, 1993). The descriptors and their values are authority (governmental or nongovernmental); level (international, national, regional, or local); function (executive, legislative, or judicial); and access (internal or external). Access refers to a single aspect of the relation between a target and a firm: whether the firm has a means of admission or a direct path to the target due to its physical or functional position within the domain of the target. The specific targets in any case of CPA are largely predetermined; firms engage in CPA toward policymakers that have some control over the issue in which they are interested. (This point will be further explained below, in the presentation of propositions.)

Although there are 48 general target types possible, as noted in Figure 2, only nine specific targets were identified for this study. They were the United Nations Environment Programme (UNEP); the European Community Commission (ECC), the U.S. President, the U.S. State Department, the U.S. Environmental Protection Agency (EPA); the U.S. Senate, the U.S. House of Representatives, and the executive and legislative branches of foreign governments. Because each of these public officials or policy-making bodies had some degree of potential impact on the final outcome of ozone protection policy, each was a reasonable target of CPA for U.S. firms.

The Montreal Protocol has been negotiated under the aegis of the UNEP. Representatives at the conferences leading to the treaty, including the ECC and members of the executive branches of national governments, as well as the UNEP itself, were all sensible CPA targets. Executive branches were potential targets of CPA because of their roles in implementing and administering a treaty or other ozone-protection regulations. At UNEP conferences, a State Department administrator is the chief U.S. representative,

| | | Governmental | | | | Non-Governmental | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | International | National | Regional | Local | International | National | Regional | Local |
| Internal | Executive | | - President<br>- State<br>- EPA | | | | | | |
| | Legislative | - UN Environment Programme | - Senate<br>- House | | | | | | |
| | Judicial | | | | | | | | |
| External | Executive | - European Community Commission | - Foreign Government Executives | | | | | | |
| | Legislative | | - Foreign Government Legislators | | | | | | |
| | Judicial | | | | | | | | |

Note: Entries in cells indicate the specific targets considered in this study.

*Note:* Entries in cells indicate the specific targets considered in this study.

*Figure 2.* Typology of Targets

due to State's role in nearly all international negotiations regardless of substantive matter. The State Department administrator is always accompanied by an Environmental Protection Agency (EPA) administrator, due to EPA's expertise in environmental issues and EPA's eventual role in the implementation of international environmental agreements. Thus, both the State Department and the EPA were potential targets in this case. The President was also a logical target, because he appoints representatives to negotiations, and in some cases, attends conferences for symbolic reasons. In fact, in the ozone-depletion case, the support of President Reagan was critical in the early stages of negotiation. Although members of the legislative branches of national governments are unlikely to participate directly in treaty negotiation, many of them (including the United States Senate) must ratify a treaty before it can be effected. Additionally, legislative branches might craft enabling legislation so that an international treaty can be implemented. Thus, legislative branches were also plausible CPA targets.

### *Policy Type*

Business firms are affected by a multitude of policies, not just those that are explicitly directed toward business. Many public policies seriously affect business because of the way they distribute burdens and benefits among firms (Leone, 1985). The fact that the distributional consequences of policy may be indirect or unintended does not diminish their importance for the individual firms that are affected.

Within the United States, policies have been categorized in many ways: by the subject matter (education, agriculture, environment); by the relative size of the budgets of different policies (presidential requests, congressional appropriations, agency expenditures); by the beneficiary or target group affected (student, farmers, consumers); by the impact on society or some other outcome measure; or by the process through which the policy is made (Lowi, 1967, 1969; Ripley & Franklin, 1987). Here, subject matter is the key variable for categorizing policies and policy issues. Scholars in the field of corporate strategy have suggested several typologies of issues that affect business. One of the most simple and widely used typologies has four categories: social, economic, political, and technological (Wilson, 1977). It is important to recognize that many policies can be constructed about a single issue, and these policies may fall into different categories in the typology. When an issue that is important to a business reaches the stage of its life cycle in which public policy is likely, the policies that obtain may be labeled social, economic, political, and/or technological.

Social policy is a broad category, including, among other things, conceptions of the public good. Policies intended to protect the environment, such as those related to ozone depletion, are categorized as social. Economic policies include monetary policies, fiscal policies, trade rules, and tax laws. Political policies are those that involve relations between countries, military activities such as the development of weapons systems or the occupation of foreign territory, or, domestically, the rules of the political game, such as campaign rules. Technological policies are those that have the intent of increasing innovation, such as policies that create centers for scientific or technical research. In the present study, the policy-type variable remained constant (social).[1]

## Issue Life Cycle

The literatures of both political science and corporate social responsiveness use the concept of the public issue life cycle to describe evolving patterns of policymaking and business response (e.g., Cobb and Elder, 1972; Post, 1978). Here, three life cycle stages—emergence, formulation, and administration—are considered. Although there may be considerable overlap among these three stages, it is possible, at least in retrospect, to identify life cycle stage boundaries with respect to most issues, including the Montreal Protocol.

The emergence stage of the life cycle covers that period of time when business firms and other actors begin to show an interest in the issue. In the present case, emergence began in 1985, when the Vienna Convention for the Protection of the Ozone Layer was signed. The convention established a framework for international cooperation regarding ozone depletion, proposing that international regulation was an appropriate response to the ozone depletion problem. Emergence of ozone protection as an international issue continued through December 1986 when experts from 45 nations met in Geneva to discuss specific emission and production controls for ozone-depleting substances. The formulative stage of the life cycle involves the development of means for dealing with public problems and issues. This stage includes the negotiation and argument that occur before a law or treaty is signed and the formal adoption of particular regulations. Formulation of a treaty to reduce ozone destruction occurred from December 1986 through December 1988. The protocol itself was signed in September 1987; however, it was not effected until December of the following year, when a sufficient number of countries had ratified the treaty. The administrative stage of the issue life cycle occurs when legislation or regulations are put into effect. As soon as the Montreal Protocol was ratified by a sufficient number of countries, the administrative stage of the life cycle began. Since the treaty is still in effect, this stage continues today. This study, however, covered only the period through November 1990.

The life-cycle concept is useful for tracing changes in issues over time, but it is important to realize that issues often pass through similar phases a number of times (Mahon & Waddock, 1991). In ozone depletion, it is interesting to note that there have been several cycles back to formulation, as the Montreal Protocol has been amended to include restrictions on more chemical compounds and to accelerate eventual phaseouts of the compounds.

## Agency Problems

The theory of agency deals with relations in society where one party (agent) acts for another (principal) (Mitnick, 1984). It is not necessary that a relation be formalized for it to be one of agency: Jensen and Meckling (1976) note that agency contracts are often implicit. Many recent works characterize the relationship between business and political decision-makers as a principal-agent relation, with business firms as principals and policy makers as agents (e.g., Aiyegoro, 1990; Keim & Baysinger, 1988; McGuire & Ohsfeldt, 1989; Mitnick, 1991; Peltzman, 1984).

Agency relations often are characterized by problems which result from differences in goals between agent and principal, from different understandings of issues due to bounded rationality or information asymmetry, from different levels of risk aversion of principal and agent, and from the existence of pressures on both agent and principal from outside the agency relation itself (Eisenhardt,

1989; Mitnick, 1984). Mitnick identifies four reasons that the agent may fail to act in the principal's interest: (1) the agent does not know or understand what the principal wants (knowledge problems); (2) the agent has insufficient skill to act in the principal's interest (capacity problems); (3) the agent disagrees with or is not disposed toward the principal's interest (disposition problems); or (4) the agent does not exert sufficient effort in pursuit of the principal's interest (effort problems). The principal attempts to resolve these problems through effective agent control.

In the relation between business firms and policymakers, the extent of agency problems is dependent on the characteristics of the issue at hand and the target type. CPA can be viewed as an effort by a firm to create agents or to resolve problems in its agency relations with public officials. The various political tactics are not equally useful for resolving different agency problems. Therefore, the selection of appropriate tactics to be included in CPA depends on the particular agency problems that arise in different situations, as noted below. CPA is effective if perfect agency can be attained and the target does precisely what the firm wants. Even if perfect agency is not attained, CPA is effective if it changes target behavior in the direction the firm desires.

### Firm Characteristics

Many of the theoretical and empirical studies on corporate political activity emphasize organizational factors that affect firms' participation in CPA. Consistently, the studies have found that CPA is more likely in firms that are large and profitable (e.g., Andres, 1985; Brenner, 1980; Masters & Baysinger, 1985; Masters & Keim, 1986; Yoffie, 1987). Large firms may have greater incentive to engage in political action due to perceived threats from the government. Large firms perceive themselves as targets for governmental investigations, because their size makes them conspicuous (Andres, 1985). Profitable firms may be better able to assume the operational expenses of political activity (Masters & Baysinger, 1985; Yoffie, 1987). U.S. firms affected by ozone protection policy vary widely in terms of both size and profitability.

## PROPOSITIONS

A number of descriptive propositions were explored in this study. Each of the four sets of propositions notes the conditions under which an agency problem is likely to occur and the political tactics that the firm is most likely to select to resolve those problems.[2] While other tactics may be of some use in addressing the agency problem, the ones noted are of primary utility. In all case, it is expected that larger and more profitable firms are more likely to engage in CPA than smaller or less profitable ones.

**Proposition 1.1:** Firm-target knowledge problems are likely to occur (a) earlier in the issue life cycle and (b) with targets that are of broad levels and to which access is external

**Proposition 1.2:** When knowledge problems occur, a firm is likely to select the tactics of lobbying, testimony, and, personal service.

Knowledge problems occur when agents do not know or understand the position of the principal. Public officials (targets) are likely to know a firm's preferred policy outcome during issue emergence because information about the issue is vague or indiscernible; the firm is itself only beginning to articulate its own position. At any stage of the issue life cycle, international-level targets have less information about the firm or its position than national-level politicians or bureaucrats. To mitigate knowledge problems, the firm must provide information to the target about its position. Lobbying, testifying and engaging in personal service present the best opportunities for information exchange.

**Proposition 2.1:** Firm-target capacity problems are likely to occur (a) later in the issue life cycle and (b) with targets that are of broad levels and to which access is external.

**Proposition 2.2:** When capacity problems occur, a firm is likely to select the tactics of lobbying, reporting research results, testimony and personal service.

Capacity problems exist in an agency relation when the agent is unable to pursue the principal's objectives. Early in the issue life cycle, the arena for resolution is undetermined, thus any target might assume authority to address it. Later, however, the resolution process is likely to center first in the legislative branch (formulation), then in the executive branch (administration). During these stages capacity problems arise with targets in the arena which does not have authority. Also, as the issue progresses, resolution may require substantial government resources (human and financial); capacity problems are likely if resources are scarce. Throughout the life cycle, capacity problems are more likely to occur with international targets, since international organizations often are hampered in their policy-making efforts by institutionalized national sovereignty rights. To mitigate capacity problems, the firm must assure that the target has authority and ability to act. Political tactics do not enable a firm to induce a transfer in authority from one target to another; thus a rational firm does not include a target in its CPA when capacity problems stem from lack of authority. Similarly, a rational firm does not include in its CPA a target which has insufficient resources to act, since CPA toward the target is unlikely to improve the level of resources. However, if capacity problems are related

to skills, a firm tries to educate the target through lobbying, reporting research results, giving testimony, and personal service.

**Proposition 3.1:** Firm-target disposition problems are likely to occur (a) later in the issue life cycle and (b) with targets that are of broad levels, legislative functions, and to which access is external

**Proposition 3.2:** When disposition problems occur, a firm is likely to select the tactics of constituency building and survey reporting

Disposition problems exist in an agency relation when the agent and the principal have different preferences. Public officials are most likely to disagree with a firm on policy goals during the later stages of the issue life cycle, largely because multiple interest groups (other principals) emerge as the issue progresses. Targets may be able to remain insulated from the preferences of each discrete principal and to be relatively unresponsive to them (Keim & Zeithaml, 1986; Shapiro, 1990), or they may simply be more attuned to the position of a group other than the firm. In addition, disposition problems are greater with international targets, which almost always have a wide variety of interests to represent. Heterogeneous interests force targets to pursue only very general goals representing minimal levels of agreement or to ignore particular interests altogether (Keim & Baysinger, 1988). Finally, disposition problems are more likely with legislative function targets. Elected legislators tend to be more susceptible to the positions presented by nonbusiness interest groups, which may represent many potential votes in future elections than are nonelected executive branch bureaucrats. Disposition problems are resolved by providing incentives to targets to change their position. Constituency building and survey reporting implicitly offer inducements (votes) to policymakers who support the firm's cause.

**Proposition 4.1:** Firm-target effort problems are likely to occur (a) earlier in the issue life cycle and (b) with targets that are of broad levels and to which access is external

**Proposition 4.2:** When effort problems occur, a firm is likely to select the tactics of constituency building and survey reporting.

Effort problems arise when the agent is not diligent in pursuing the principal's preferences. This is more likely during issue emergence: emergent issues receive little consideration because so many others issues, which have developed further through the life cycle, compete for targets' attention. International targets are less likely to exert effort on behalf of a firm than are national targets because the issues of interest to the firm are simply not important enough to the international organization to merit its attention in the face of so many

competing issues. As with disposition problems, effort problems are resolved by providing incentives to targets to change their position. Constituency building and survey reporting offer such incentives.

## METHODOLOGY

The population of interest was all publicly-held United States firms directly affected by policies related to ozone-layer depletion: producers of chlorofluorocarbons (CFCs), halons, and other controlled compounds, and manufacturers that use CFCs and controlled compounds in their processes, especially manufacturers of refrigeration and air conditioning equipment, makers of electronic equipment, and producers of rigid plastic foam. The sample of 551 firms, derived from the Directory of Corporate Affiliations, the Million Dollar Directory, and Compact Disclosure, was distributed as follows: eight producers of ozone-depleting substances (1%); 109 chemical industry users (20%); 354 electronics industry users (64%); and 80 refrigeration/air conditioning industry users (15%).

Data on political tactics, targets of political activity, and agency problems in firm-target relations were collected through a mail survey conduced in Fall, 1990. The survey asked respondents about their political activity with respect to ozone depletion and the Montreal Protocol during each stage of the life cycle and about the utility of tactics with respect to each of the targets, regardless of the issue of concern.[3] A total of 181 firms responded to the survey; 151 of the firms engaged in political activity (a 29 percent usable response rate). Data on profitability (return on investment) and size (assets) were collected from the Million Dollar Directory, Compact Disclosure, and other sources. Written transcripts of Congressional and administrative hearings and written summaries of UNEP hearings were collected and reviewed for crossverification of tactics such as testimony, research reporting, and survey reporting, thus increasing confidence in the validity of the study. Finally, 14 of the respondents (hereafter referred to as telephone respondents) were interviewed by telephone after their surveys had been returned. The purpose of the interviews was to extend and clarify the information obtained with the survey.

Comparisons of responding and nonresponding firms showed that respondents were somewhat less profitable and smaller than the nonrespondents, but the differences were insignificant. Responding firms were distributed among the four industry groups in approximately the same proportions as the full sample of firms. These data suggest that respondents did not differ significantly from nonrespondents.

## RESULTS AND DISCUSSION

Two sets of statistical analyses were done; results are displayed in Tables 1 and 2. Chi-square statistics were used to examine the frequency with which agency problems were reported. If problem occurrence was random, chi-square

*Table 1.* Chi Square Values: Occurrence of Problems

| | *Stage 1* | *Stage 2* | *Stage 3* |
|---|---|---|---|
| President | | | |
| Agency Problems | | | |
| Knowledge | **33.0*** | **19.6*** | ++ |
| Capacity | 0.2 | 4.9 | ++ |
| Disposition | 11.0** | 3.6 | ++ |
| Effort | 8.8** | 10.0* | ++ |
| State Department | | | |
| Agency Problems | | | |
| Knowledge | ++ | **12.5*** | ++ |
| Capacity | ++ | **22.2**** | ++ |
| Disposition | ++ | 0.6 | ++ |
| Effort | ++ | 2.8 | ++ |
| Environmental Protection Agency | | | |
| Agency Problems | | | |
| Knowledge | **8.3*** | **38.4**** | **61.8**** |
| Capacity | 8.3** | 52.3** | 79.4** |
| Disposition | 3.0 | **35.3*** | **68.6*** |
| Effort | 0.3 | 17.1* | 52.3* |
| Senate | | | |
| Agency Problems | | | |
| Knowledge | **18.6*** | **33.4**** | **11.9**** |
| Capacity | 0.0 | 94.0** | 9.7** |
| Disposition | 0.6 | 6.1 | 1.0 |
| Effort | 0.2 | 4.3 | 3.5 |
| House of Representatives | | | |
| Agency Problems | | | |
| Knowledge | **15.4*** | **10.1**** | **56.8**** |
| Capacity | 1.4 | 2.1 | **18.7*** |
| Disposition | 0.6 | 2.1 | **13.8*** |
| Effort | 0.2 | 0.3 | 1.7 |

*Notes:* ++ Statistic not calculated due to insufficient number of cases.
* Significantly high at $p \leq .01$
** Significantly low at $p \leq .01$
Bold figures indicate statistics that support propositions.
Underlined figures indicate statistics that counter propositions.

values should approach zero. Large chi-squares values indicate that firms' reports of problem occurrence differs from frequencies as determined by chance. Table 1 reports chi-square values for problem occurrence for each of the five targets across all three life-cycle stages, noting which figures are statistically significant ($p \leq .01$).[4] Statistical analyses were not done for four targets (UNEP, ECC, and foreign government executive and legislative branches) due to the low occurrence of CPA directed toward them.

*Z*-tests were used to assess whether respondents that experienced particular agency problems tended to select certain tactics. All firms that indicated the occurrence of a particular agency problem were grouped together and firms that did not report the problem were placed in another group. The proportions of each group that selected a given tactic were compared using the *Z*-test. The analysis was done with all targets aggregated as well as with targets disaggregated. If the selection of tactics was related to the presence of particular agency problems, significant differences between the paired groups would be expected. Table 2 reports the *Z*-test scores for the correlations between agency problems and tactics with all targets aggregated and with five disaggregated targets, noting which figures are statistically significant ($p \leq .01$). *Z*-values were not calculated for four targets (UNEP, ECC and foreign government executive and legislative branches) due to the low occurrence of CPA directed toward them.

In addition to questions about their political activity regarding the ozone-depletion issue, respondents were asked to assess the utility of the seven tactics for resolving problems in their relations with different policy makers. These results are shown in Table 3. Generally, firms indicated that tactics were more useful for United States government targets than for other targets. Lobbying was the most useful tactic for all but three targets. The exceptions were the State Department, EPA, and UNEP: firms indicated that personal service was more useful than lobbying for these targets. For the EPA, reporting research results and testimony were also considered more useful than lobbying, and for UNEP, reporting research results was regarded as more useful than lobbying. For all but two targets, legal action was the least useful tactic. The exceptions were again the EPA and the UNEP. For the EPA, both reporting survey results and constituency building were considered less useful than legal action. For the UNEP, constituency building was considered less useful than legal action.

## Knowledge Problems

Knowledge problems occur when agents do not know or understand the position of the principal. In the case of the Montreal Protocol and ozone-layer depletion, knowledge problems occurred at significantly high levels during emergence with four targets (President, EPA, Senate, and House) and during formulation with two targets (President and State Department). Knowledge

*Table 2.* *Z*-Test Values: Correlations Between Problems and Tactics

| | *Knowledge* | *Capacity* | *Disposition* | *Effort* |
|---|---|---|---|---|
| Targets Aggregated | | | | |
| Lobbying | **4.227*** | **3.883*** | −3.163* | −3.181* |
| Reporting research results | −2.896* | −0.438 | 2.834* | 0.711 |
| Reporting survey results | −2.220 | 1.264 | −0.965 | −0.513 |
| Testimony | −5.096* | 2.195 | 3.020* | 1.752 |
| Legal actions | 1.322 | 1.283 | 0.000 | 0.000 |
| Personal service | 1.386 | **2.511*** | −2.439* | −3.430* |
| Constituency building | −4.347* | **6.511*** | **2.857*** | 0.828 |
| President | | | | |
| Lobbying | −1.451 | 1.414 | −0.586 | 0.000 |
| Reporting research results | 0.361 | **6.447*** | −2.255 | 0.724 |
| Reporting survey results | ++ | ++ | ++ | ++ |
| Testimony | ++ | ++ | ++ | ++ |
| Legal actions | ++ | ++ | ++ | ++ |
| Personal service | 0.115 | 4.884* | −1.333 | −0.464 |
| Constituency building | −0.191 | −2.043 | −2.035 | 0.000 |
| State Department | | | | |
| Lobbying | 0.769 | **3.266*** | 2.791* | 1.554 |
| Reporting research results | −1.743 | −0.165 | −4.497* | −1.247 |
| Reporting survey results | −1.426 | −1.429 | 0.000 | −0.337 |
| Testimony | ++ | ++ | ++ | ++ |
| Legal actions | ++ | ++ | ++ | ++ |
| Personal service | 1.067 | −0.995 | 1.1072 | −1.063 |
| Constituency building | −1.061 | −0.995 | 1.072 | −1.063 |
| Environmental Protection Agency | | | | |
| Lobbying | 0.562 | −1.122 | −2.027 | −3.060* |
| Reporting research results | −1.315 | −0.386 | −1.298 | 1.867 |
| Reporting survey results | 2.032 | −2.204 | −1.746 | −1.935 |
| Testimony | −1.853 | 1.020 | 1.265 | 1.323 |
| Legal actions | 1.021 | −1.259 | −1.076 | −0.963 |
| Personal service | 1.678 | −2.204 | −1.746 | −2.479* |
| Constituency building | 0.000 | −2.558* | −0.791 | −1.234 |
| Senate | | | | |
| Lobbying | 0.237 | 0.000 | −0.504 | 0.000 |
| Reporting research results | −0.950 | 1.010 | 0.724 | 2.357* |
| Reporting survey results | −2.357* | −3.530* | **3.500*** | **3.563*** |
| Testimony | −2.881* | −1.291 | 0.593 | −0.477 |
| Legal actions | ++ | ++ | ++ | ++ |
| Personal service | −2.397* | −2.291* | 1.000 | −1.585 |
| Constituency building | −2.300 | 1.033 | **2.749*** | **2.749*** |

(*Continued*)

*Table 2.* (Continued)

| | *Knowledge* | *Capacity* | *Disposition* | *Effort* |
|---|---|---|---|---|
| House of Representatives | | | | |
| Lobbying | **2.771*** | 1.266 | 1.254 | 1.168 |
| Reporting research results | −0.744 | 2.154 | 2.938* | 1.630 |
| Reporting survey results | −4.322* | 1.691 | −2.664* | −0.669 |
| Testimony | −2.139 | 0.268 | −0.916 | 0.971 |
| Legal actions | −1.124 | 1.054 | −1.116 | −0.905 |
| Personal service | 0.000 | −0.395 | −1.358 | −2.065 |
| Constituency building | −4.862* | 2.859* | **3.682*** | **2.820*** |

*Notes:* ++ Statistic not calculated due to insufficient number of cases.
* Significant at $p \leq .01$
Bold figures indicate statistics that support propositions.
Underlined figures indicate statistics that counter propositions.

problems occurred at significantly low levels during formulation and administrations with three targets (EPA, Senate, and House). These findings support Proposition 1.1(a).

During emergence, policy makers may at best have been unaware of firms' positions; at worst, targets may have misjudged firms' positions. Because the issue was still emerging in the political arena, the position of firms with respect to international policy for ozone depletion would not have been easy for targets to discern. As the issue life cycle entered the formulation stage, when international policy was being negotiated, knowledge problems with President Reagan persisted, though for most other targets the problems abated significantly. Because President Reagan was perceived as a man who did not want to regulate business activity (Quick, 1984), firms thought that he did not understand their acceptance of international controls on ozone-depleting substances. Firms actually favored international action to unilateral United States regulation. It is interesting to note that the President and business supported the same course of action, despite firms' perception of knowledge problems. By December 1988, the beginning of policy administration, most firms were confident that U.S. policymakers knew their position on the issue of ozone protection. Ongoing news media coverage made firms' positions clear.

Proposition 1.1(b) was not tested because too few firms directed political activity toward broad-level targets (UNEP and ECC) and external-access targets (ECC and foreign government executive and legislative branches).

To mitigate knowledge problems, the firm must provide information to the target about its position. Firms frequently selected lobbying when they reported the occurrence of knowledge problems. They selected reporting research results, testimony and constituency building at very low rates when they reported knowledge problems. To get a better idea of the association between agency problems and selected tactics, the relationship was examined for each

*Table 3.* Utility of Tactics

| | *Mean* * | *N*** |
|---|---|---|
| President | | |
| Lobbying | 1.290 | 138 |
| Personal service | 1.519 | 133 |
| Reporting research results | 2.285 | 137 |
| Reporting survey results | 2.579 | 133 |
| Constituency building | 2.739 | 134 |
| Testimony | 2.895 | 133 |
| Legal actions | 3.579 | 133 |
| State Department | | |
| Personal service | 1.669 | 133 |
| Lobbying | 1.674 | 135 |
| Reporting research results | 2.280 | 132 |
| Testimony | 2.895 | 133 |
| Reporting survey results | 3.261 | 134 |
| Constituency building | 3.391 | 133 |
| Legal actions | 3.462 | 132 |
| Environmental Protection Agency | | |
| Reporting research results | 1.518 | 141 |
| Personal service | 1.623 | 138 |
| Testimony | 1.784 | 139 |
| Lobbying | 1.818 | 143 |
| Legal actions | 3.015 | 136 |
| Reporting survey results | 3.319 | 138 |
| Constituency building | 3.438 | 137 |
| Senate | | |
| Lobbying | 1.243 | 148 |
| Personal service | 1.705 | 139 |
| Testimony | 2.070 | 143 |
| Constituency building | 2.385 | 143 |
| Reporting research results | 2.406 | 143 |
| Reporting survey results | 2.410 | 139 |
| Legal actions | 3.511 | 137 |
| House of Representatives | | |
| Lobbying | 1.235 | 149 |
| Personal service | 1.806 | 139 |
| Testimony | 2.035 | 142 |
| Constituency building | 2.117 | 145 |
| Reporting survey results | 2.137 | 139 |
| Reporting research results | 2.538 | 143 |
| Legal actions | 3.471 | 138 |

(*continued*)

*Table 3.* (Continued)

| | *Mean* * | *N*** |
|---|---|---|
| Foreign Government (Executive) | | |
| Lobbying | 1.650 | 120 |
| Personal service | 1.847 | 118 |
| Reporting research results | 2.504 | 119 |
| Reporting survey results | 3.150 | 120 |
| Testimony | 3.150 | 120 |
| Constituency building | 3.563 | 119 |
| Legal actions | 3.613 | 119 |
| Foreign Government (Legislative) | | |
| Lobbying | 1.658 | 120 |
| Personal service | 1.948 | 116 |
| Reporting research results | 2.655 | 119 |
| Reporting survey results | 3.134 | 119 |
| Testimony | 3.254 | 118 |
| Constituency building | 3.573 | 117 |
| Legal Actions | 3.593 | 118 |
| UN Environment Programme | | |
| Personal service | 1.797 | 118 |
| Reporting research results | 1.900 | 120 |
| Lobbying | 1.959 | 121 |
| Testimony | 3.000 | 119 |
| Reporting survey results | 3.420 | 119 |
| Legal actions | 3.551 | 118 |
| Constituency building | 3.568 | 118 |
| European Community Commission | | |
| Lobbying | 1.645 | 121 |
| Personal service | 1.805 | 118 |
| Reporting research results | 2.517 | 120 |
| Reporting survey results | 3.118 | 119 |
| Testimony | 3.176 | 119 |
| Constitauency building | 3.530 | 117 |
| Legal actions | 3.602 | 118 |

*Notes:* * Scale is 1-4: 1 = very useful; 2 = somewhat useful; 3 = slightly useful; 4 = not at all useful.
** Number of responding firms. (Not all firms indicated the utility of each tactic for each target.)

of the five targets for which there were sufficient data to calculate *Z*-scores (President, State Department, EPA, Senate, and House). With all targets except the President, lobbying was positively correlated with knowledge problems, however, the relationship was statistically significant only for the House. A positive though nonsignificant relationship was found between personal service and knowledge problems for executive branch targets. However, with Senate targets, firms were significantly unlikely to select

personal service when they experienced knowledge problems. Testifying at hearings was negatively associated with knowledge problems for the EPA, Senate, and House; the relationship was statistically significant for the Senate. Other tactics significantly and negatively related to knowledge problems were reporting survey results with both Senate and House targets, and constituency building with House targets. These results provide only partial support for Proposition 1.2.

It is apparent that lobbying is a useful tactic for relaying information to targets about the firm's position. In fact, lobbying is perhaps the best tactic for this purpose (Berry, 1977). However, the tactics of testimony and personal service appear to be far less useful. Participation in administrative or Congressional hearings allows a firm to make its views known to important policy makers in a structured forum (Bryner, 1987; Epstein, 1969), and personal service provides opportunities for close personal contact between a firm and policy makers—contact in which public officials would be expected to learn about the firm's views. Thus, firms might be expected to select these tactics to address knowledge problems. These unexpected results may be an artifact of the ozone-depletion case. During the time period studied, there were few opportunities for firms to utilize either of these tactics. Only 10 congressional or administrative hearings were held, and the number of testifying parties was limited. During the few hearings that were held, several trade associations representing a multitude of firms did provide testimony. Similarly, few advisory committees or task forces were established so participation opportunities were limited.

Although reporting the results of scientific or survey research and constituency building also allow the firm to communicate valuable information to targets, the content of the communication is not the firm's position on an issue of significance. When research findings are reported, the information is about the substance of the issue or policy. When the firm's constituency is mobilized to action, the information focuses on the attitudes and opinions of a stakeholder group, not necessarily that of the firm. Thus, the negative associations between knowledge problems and reporting research results and constituency building are tenable. It is clear that firms understand that these tactics are not particularly useful for addressing knowledge problems.

## Capacity Problems

Capacity problems exist in an agency relation when the agent is unable to pursue the principal's objectives. In the case of the Montreal Protocol and the ozone-depletion issue, capacity problems occurred at significantly high levels only once: during administration, with the House. However, respondents reported this problem at significantly low levels several times: during emergence with one target (EPA); during formulation with three targets (State, EPA, and

Senate) and during administration with two targets (EPA and Senate). These findings provide only minimal support for Proposition 2.1(a).

After the emergence stage of the life cycle has passed, the issue resolution process is likely to center in a particular governance structure. Capacity problems are likely with any target not affiliated with the governance structure. During administration, the executive branch (in this case, the EPA) has official authority to address the issue. Capacity problems with the House are almost inevitable, since House members have no official authority to administer policy. Also, House members are seen as insufficiently skilled to resolve the technical and scientific problems related to ozone-layer depletion. As one telephone respondent said, "Most of those people are lawyers. What do they know about chemistry and science? They don't even know what 'CFC' stands for." Finally, the low occurrence of capacity problems with most of the targets throughout the life cycle supports the claim that rational firms do not include targets in their CPA when capacity problems stem from lack of authority.

Proposition 2.1(b) could not be tested because very few firms directed political activity toward broad-level targets (UNEP and ECC) and external-access targets (ECC and foreign government executive and legislative branches).

To mitigate capacity problems, the firm must assure that the target has authority and ability to act. Although political tactics do not address the issue of authority, some may "educate" targets about the issue, thereby improving ability. Firms frequently lobbied, provided personal service, and engaged in constituency building when they reported the occurrence of capacity problems. However, they did not report research results or testify at hearings at significantly high rates. In fact, reporting research results was negatively (though not significantly) correlated with capacity problems. With targets disaggregated, results were somewhat different. Lobbying was used at significantly high rates when the State Department was targeted. Reporting research results and personal service were significantly and positively correlated with capacity problems when the President was targeted. Testifying was not a frequently used tactic with any of the targets. In several instances, negative correlations were found for tactics that were expected to be used to address capacity problems, but the relationship was statistically significant in only one case: personal service directed toward Senate targets. Three other significant correlations were found. Constituency building was selected at a high rate when the House was targeted. With the EPA as target, firms were unlikely to use constituency building, and with Senate targets, they were unlikely to select reporting survey results. This mixed bag of results lends some support to Proposition 2.2. Three of the suggested tactics (lobbying, personal service, and reporting research results) were used, at least with some targets, to educate policy makers so they would have the ability to act. However, personal service also was negatively correlated with capacity problems with one target (the

Senate). Furthermore, for the only target with which capacity problems were reported at a significantly high rate (the House), the tactic of choice was constituency building, which is unlikely to provide education to mitigate capacity problems.

Although it is apparent that lobbying, personal service, and reporting research results are helpful for educating targets, the tactic of testimony appears to be far less useful. As Berry (1977) suggests, testimony is sometimes viewed as symbolic, rather than as informative. Due to the formal nature of hearings proceedings, giving testimony is an ineffective way to educate policy makers about complex issues such as ozone depletion.

The positive association between capacity problems and constituency building is not readily understood. Constituency efforts are effective neither at empowering a target that otherwise has no authority to act nor at educating targets so that they have sufficient skill to act. A possible explanation is that the finding is spurious or the correlation is confounded by the occurrence of other agency problems. In fact, as noted below, there is a positive correlation between the occurrence of disposition and effort problems and the selection of constituency building. The constituency-building tactic may have been selected for resolving these problems, rather than for addressing capacity problems.

## Disposition Problems

Disposition problems exist in an agency relation when the agent and the principal have different preferences. In the case of the Montreal Protocol and ozone-layer depletion, disposition problems occurred at significantly high levels during formulation and administration with the EPA and during administration with the House. These problems occurred at significantly low levels during emergence with the President. These results support Proposition 3.1(a). As public-policy issues progress through the life cycle, multiple interest groups with heterogeneous positions emerge. Few interest groups were actively involved in the ozone-depletion issue during emergence (1985 and 1986), but more became active later. For example the Alliance for Responsible CFC Policy, an industry organization formed in 1980, limited its activities to calls for additional research on CFCs until late 1986, when it began to oppose regulation of ozone-depleting substances more vigorously. About the same time, the Natural Resources Defense Council (NRDC) also became actively involved in ozone depletion as an international issue, promoting an international agreement to address the problem. Earlier, the NRDC had focused almost exclusively on promoting unilateral U.S. ozone-protection regulations.

Part of Proposition 3.1(b) could not be tested because very few firms directed political activity toward broad-level targets (UNEP and ECC) and external-

access targets (ECC and foreign government executive and legislative branches).

The proposition that disposition problems are more likely to occur with legislative than with executive function targets was not supported. Disposition problems were frequently cited in the agency relation with the House during one time period (administration) and with the EPA during two time periods (formulation and administration). As explained above, disposition problems were expected to be greater with legislative branch targets because of the legislators' dependence on members of business interest groups for votes in future elections. In this case, however, there was little difference in the occurrence of disposition problems between the two functional areas. This result stems from the lower-than-expected occurrence of disposition problems with the Senate.

Disposition problems with the Senate were low primarily because so little was expected from the Senate. Early in the issue development, the position of most firms was to oppose unilateral United States regulation of ozone-depleting compounds while reluctantly accepting the move toward international regulation. Although there were a few Senate bills proposing restrictions on CFCs and related substances, none of them were brought to the Senate floor for a vote; the committees in which the bills were introduced postponed action on them while international negotiations proceeded. Thus, although U.S. firms were concerned about the potential for unilateral regulations, they were satisfied that Senate actions were largely symbolic efforts intended to put pressure on international negotiators. After the Montreal Protocol was signed in 1987, the dispositions of U.S. firms and of the Senate converged: both wanted the treaty to be ratified.

To resolve disposition problems, firms provide incentives to targets to change their position. As expected, firms were significantly likely to select constituency building when they reported disposition problems. Surprisingly, they were also likely to report research results and give testimony. Lobbying and personal service were reported at significantly low rates. With targets disaggregated, results vary. Constituency building was significantly and positively correlated with disposition problems for the Senate and the House; however, reporting survey results was related to disposition problems positively for the Senate and negatively for the House. Neither tactic was associated with disposition problems for executive branch targets. Other tactics for which significant relationships were found were lobbying the State Department (positive) and reporting research results to State (negative) and the House (positive). These results provide some support for Proposition 3.2.

Clearly constituency building provides incentives to policy makers, especially those in the legislative branch, to modify their views. Constituents' letters, telephone calls, and other communications with policy makers state their own views, which are similar to firm's positions. Officials may be motivated to alter

their disposition in favor of firms, since constituents imply (or state directly) that votes in future elections are partially dependent on officials' action on this issue. Reporting survey results has the same type of effect, but may not be as compelling. Though the purpose of survey reporting is to tell targets that many voters support the firm's view on ozone-protection policy, the communication is not direct: a firm that uses the tactic is providing only indirect evidence of voter support, and targets may choose to disbelieve it. Despite the fact that survey reporting has somewhat lower utility than constituency building, it is puzzling that firms would use the tactic with members of the Senate, but not with members of the House. Once a firm has conducted a survey, it ought to report the results to as many targets with whom there are disposition problems as possible. Telephone respondents could not explain this finding: they asserted that survey results reported to the Senate should also be reported to the House.

The use of informational tactics for addressing disposition problems, at the aggregate level and particularly with State Department and House targets, also requires explanation. For aggregated targets, the informational tactics of testifying and reporting research results were selected; for the State Department, the informational tactic selected was lobbying; and for the House, it was reporting research results. These tactics were used to provide information to targets to persuade them of the correctness of the firm's position. However, the reporting of research results to members of the House is indeed curious. Respondents rated the tactic as only slightly useful with House targets (2.538 on a scale where one is very useful and four is not at all useful). Furthermore, several telephone respondents indicated that it would be futile to report scientific information to elected officials, because most politicians do not have sufficient training to understand it. Thus, this is a second finding about disposition problems with House members that is not readily explained.

## Effort Problems

Effort problems arise when the agent is not diligent in pursuing the principal's preferences. In this case, effort problems occurred at significantly high levels during formulation with two targets (President and EPA) and during administration with the EPA only. Effort problems occurred at significantly low levels during emergence with the President. These results refute proposition 4.1(a). This result can be explained with special consideration of the ozone-depletion issue. Most emergent issues receive little consideration because so many other issues which have developed further through the life cycle are competing for targets' attention. This one, however, received considerable attention from President Reagan during the period of emergence. In the mid-1980s, the President acted as a "banner-bearer." He effectively relayed the message to Congress and to the world that ozone-protection policy would have

consequences for the competitiveness of many firms and industries, and that consistent international policies were appropriate. Thus, for this issue and these firms, President Reagan served as an international "policy entrepreneur" (Wilson, 1980), exerting effort on behalf of the firms' interests. As the issue evolved, however, the President's efforts waned. By the end of 1986, it was clear that the U.S. negotiating team at ozone-depletion talks would comprise State Department and EPA officials. Firms that expected the President to continue to act as a policy entrepreneur perceived that his efforts on their behalf were inadequate. Furthermore, the EPA did not pursue exactly the same course of action as the President had: EPA officials focused more on science and technology and less on global competitiveness. Thus, its efforts, too, were perceived as deficient.

Proposition 4.1(b) could not be tested because very few firms directed political activity toward broad-level targets (UNEP and ECC) and external-access targets (ECC and foreign government executive and legislative branches).

As with disposition problems, effort problems are resolved by providing incentives to targets to change their priorities. When targets were aggregated, no tactics were selected at significantly high rates; lobbying and personal service were selected at significantly low rates. When targets were disaggregated, the same tactics were selected at significantly low rates for the EPA. Constituency building was significantly and positively correlated with effort problems for the Senate and the House. Also with the Senate, reporting survey and research results were frequently selected tactics. Thus, Proposition 4.2 received some support with respect to legislative branch targets.

As noted in the discussion above on disposition problems, the purpose of both constituency building and reporting survey results is to suggest to targets that many voters support the firm's view, thus persuading targets to exert more effort with respect to the policy issue in question. Thus, the finding of constituency building as a frequently selected tactic with effort problems is reasonable. The differences in reporting survey results to Senate and House members cannot readily be explained.

Additionally, the reporting of research results to members of the Senate is unexpected. Respondents rated the tactic as only slightly useful with Senate targets (2.410 on the four-point scale). Furthermore, telephone respondents indicated that elected officials do not have sufficient training to understand scientific data. Thus, this is a second finding about effort problems that is not readily explained.

## International and Foreign Targets

As noted in the discussions above, the United Nations Environment Programme (UNEP), the Commission of the European Community (ECC),

and the executive and legislative branches of foreign governments were targeted by very few firms. This might suggest that United States firms are unaware of or unconcerned with the actions of these policy makers. However, a more reasonable interpretation of this finding is that it is more costly to direct CPA toward these targets than toward U.S. targets. Many of the surveyed firms are relatively small and only moderately profitable. These firms have neither the resources nor the expertise necessary to direct CPA toward international or foreign targets. In fact, the firms that included these targets in their CPA were the largest and the most profitable firms in the sample (the 92nd percentile in size and the 93rd percentile in profits).

## Comparison by Profitability and Size

As expected, high-profitability (HP) firms were more likely to engage in CPA than low-profitability (LP) firms, and large firms were more likely to be politically active than small firms. Both differences were statistically significant ($p \leq .01$). When analyzed by time period, HP firms were significantly more likely than LP firms to engage in political activity during issue emergence and policy formulation, but the differences were not apparent during policy administration, due to increased participation by LP firms. Early in the life cycle, the LP firms may have been "free-riding" on the CPA of the HP firms. Alternatively, they may have engaged in collective political action through their trade associations. In fact, during emergence and formulation, several trade associations did engage in political activity. Once ozone-protection policy went into effect, LP firms may have felt compelled to try to influence policy makers directly.

More interesting than the differences in the extent and timing of CPA were the differences in problems and tactics. HP firms were more likely than LP firms to indicate that they experienced knowledge or no problems with selected targets and to utilize the tactics of reporting research results and personal service and less likely to use the tactics of testimony and constituency building.

The higher incidence of knowledge problems with HP firms appears to be related to the time periods in which CPA was done. As noted, HP firms were more likely than LP firms to engage in CPA during emergence; knowledge problems were higher during that time when the ozone issue was poorly understood, even among active participants in the process. The higher reporting of no problems with targets among HP firms may be due to a historical factor that is not explicit in these data. Since the HP firms are more likely to engage in CPA with respect to all issues, they may have, over time, built good working relationships with some of the targets. They might therefore be less likely to experience difficulties in their agency relation with the targets (see Bagby, Wartick, & Stevens, 1987). In fact, telephone respondents from HP firms did indicate that they had built positive working relationships with several public officials and their aides.

The difference in the tactics used by HP and LP firms can be attributed to resources available for CPA. HP firms are more likely to have the resources necessary for conducting scientific research than are LP firms. Similarly, they are more likely to have sufficient resources so that they can spare an executive during the time that he or she serves on a task force or advisory committee. LP firms, on the other hand, are more likely to rely on tactics that are less costly. The costs of testifying at hearings and of mobilizing employees or other stakeholders to action on behalf of the firm are relatively low.

Similar differences were found between large and small firms. Large firms were more likely to engage in CPA than small firms only during policy formulation; the differences during emergence and administration were not significant, due to very low participation by large firms during emergence and high participation by small firms during administration. Like small firms, large firms appeared to be reluctant to become involved early in the issue. As described above for LP firms, once ozone-protection policy went into effect, small firms may have felt compelled to try to influence policy makers.

Large firms were more likely to indicate that they experienced knowledge problems with targets and less likely to indicate that they experienced disposition problems. Also, they were more likely to utilize the tactics of reporting research results and personal service and less likely to use the tactics of testimony and constituency building. The explanations for these findings are parallel to those for the differences between HP and LP firms. However, one finding must be explained. As with HP firms' reporting of no problems, large firms' lower reporting of disposition problems may be attributable to well-developed working relationships between the firms and policy makers.

## SUMMARY AND CONCLUSION

The relationships suggested by these data are consistent with the model described earlier, although some of the propositions were not supported. The theoretical concept that the agency paradigm provides an enlightening foundation on which to base our understanding of the relation between business firms and public officials is supported. Firms experience problems in their relations with policy makers, and their occurrence is dependent on both the type of agent (target) involved and the stage of the issue life cycle. These problems may be reasonably characterized as agency problems, although it is improbable that a firm would explicitly identify them as such. Indeed, telephone respondents were intrigued about the agency problems that were listed on the questionnaire. Among the 14 telephone respondents, 12 stated that the four problems exhaust the possible kinds of difficulties that arise in their relations with policy makers. Furthermore, the political tactics employed by firms help to diminish the agency problems that have arisen.

Several generalizations may be made about the relationships between variables. First, firms experience different agency problems with targets as an issue develops from emergence through formulation and administration. Knowledge problems are more likely to arise early in the issue life cycle, while capacity, disposition, and effort problems are more likely to arise later in the issue life cycle.

Second, the occurrence of agency problems is related to the target of political activity. The differences in problem occurrence attributable to level of target and access to target could not be assessed based on this study because so few firms targeted international targets or targets to whom access was external. However, some differences in problem occurrence related to function were found. Firms were more likely to experience disposition and effort problems with executive branch targets, rather than with legislative branch targets, a finding contrary to the propositions.

Third, because the various political tactics are not equally useful for resolving different agency problems, there is a relationship between the problems that firms experience with targets and the CPA tactics they utilize. Firms select the tactics of lobbying with all four agency problems across all stages of the issue life cycle and with all types of targets. However, they select it less often for addressing effort problem or with the EPA as a target. Firms report research results most often to targets that are perceived as having scientific expertise. Reporting the results of surveys and engaging in constituency building efforts are used only with targets that are highly dependent on their constituencies (legislative branch targets) and only for addressing disposition or effort problems. Firms' propensity to select the tactic of testifying at hearings is dependent on the opportunities to do so. Such opportunities are more likely to occur during formulation and administration. Perhaps because of the high costs associated with legal action and the minimal opportunities to use the tactic, firms are unlikely to engage in legal actions as a political activity. Personal service is a highly useful tactic for addressing knowledge problems, but opportunities to serve are not plentiful.

Finally, the political activity of firms is clearly related to organizational variables of profitability and size, as reported in previous studies. Only large and profitable firms are likely to target foreign or international policy makers. These firms are better equipped to implement such tactics as reporting research results (they can afford to do the research) and personal service (they can spare the executive talent or a short period of time). Smaller or less profitable firms are most likely to select tactics that are less costly, such as constituency building. Finally, larger or more profitable firms are less likely to experience as many agency problems in their interactions with targets than are their smaller or less profitable counterparts.

This research makes a substantial contribution to the study and understanding of corporate political activity. The study establishes that the

agency paradigm provides an appropriate and useful foundation upon which to base our understanding of CPA. By characterizing the relationship between firms and public policy officials as one of agency, we begin to understand its complexities. Furthermore, by identifying distinct problems to be resolved, agency theory suggests avenues for reducing those complexities.

This study has been an exploratory undertaking. It is useful for clarifying the variables that are important in the selection of CPA tactics, though the precise nature of the relationships among some of the variables is yet to be determined. A number of interesting theoretical and empirical questions remain to be answered:

### Interaction Effects

In the study reported here, interactions among the independent variables were apparent, but they could not be assessed with the available data. It seems certain, however, that the appropriate target of CPA varies with policy type and stage of the issue life cycle. We should assess the extent to which firms alter the targets of their political behavior as issues pass through the life cycle. Also, the life cycle proceeds differently with different policy types and this may affect targets of CPA. *What, then, are the interactions between the independent variables of target, issue life cycle and policy type?*

### Effectiveness

This study assumed that firms rationally select political tactics based on their probability of resolving agency problems. However, it did not assess whether the tactics are effective. The study of effectiveness of business or political strategy is difficult, but not intractable. Our understanding of CPA and the practical knowledge we can bring to bear on real managerial problems dictates that we determine whether tactics actually do alleviate agency problems as suggested herein. *To what extent do political tactics resolve or mitigate agency problems?*

### Leveraging

It is uncommon, indeed, for firms to experience just one type of agency problem with political targets. Firms might, therefore, choose political tactics that address multiple agency problems. A selected tactic might not be the best way to resolve any observed problem; however, it may be a second-best way for addressing them. Firms may choose to optimize their response to multiple problems, rather than maximizing their response to any one problem. *When multiple agency problems occur, what combination of political tactics is useful?*

## Agency Chains

This study found that few firms engaged directly in CPA at the international level, despite their keen interest in the outcome of international negotiations. Furthermore, many firms targeted members of Congress during stages of the issue life cycle when the executive branch would logically have greater control over the policy process. To some extent, it appeared that firms directed political activity toward targets with which they were familiar, rather than toward targets best positioned to serve their interests. Their intention may have been to induce the policy makers they targeted directly to act on their behalf by influencing other policy makers. However, we cannot come to such a conclusion based solely on this study. We should consider whether firms try to create agency chains, by engaging agents to influence other agents. *To what extent do firms use one agent to resolve problems in their relationships with other agents?*

These and other interesting and important questions can be answered, provided future research is theory-driven. The agency paradigm provides the foundation for such research.

**(Appendix follows)**

## APPENDIX

## RESEARCH QUESTIONNAIRE: CORPORATE POLITICAL ACTIVITY

### BACKGROUND INFORMATION

The purpose of this survey is to determine the kinds of problems corporations experience in their relations with policy-makers and the kinds of political activities they select to address those problems. The case of a single policy in the area of ozone layer depletion has been selected as the focus of the survey. The policy is the Montreal Protocol on Substances That Deplete the Ozone Layer, an international treaty that prescribes controls on several chemical compounds that are thought to destroy stratospheric ozone. This survey is being sent to companies that have a direct stake in the control of ozone-depleting substances, either because they manufacture such substances or because they use such substances in the manufacture of other products.

### GENERAL INSTRUCTIONS

The first four questions of the survey are divided into three sections corresponding to the following periods of time: (1) March 1985-December 1986, the period of time when many policy makers were considering the possibility of an international accord to regulate substances that deplete the ozone layer; (2) December 1986-December 1988, the period of time when the Montreal Protocol was being drafted, negotiated, and ratified; and (3) January 1989-present, the period of time when the Montreal Protocol is being enforced by national governments.

Please answer each question by checking or circling the response that corresponds with the actual steps taken by your company (rather than how you would ideally like your company to act). There are no right or wrong answers and your responses are strictly confidential.*

*The number in the upper corner is a code for mailing purposes only, so that we may check your firm off the mailing list when your questionnaire is returned.

1. For each of the three (3) time periods, did you engage in political activity regarding the ozone-depletion issue? (Please check your responses.)

| March 1985-December 1986 | December 1986-December 1988 | January 1989-the present |
|---|---|---|
| [ ] YES [ ] NO | [ ] YES [ ] NO | [ ] YES [ ] NO |

2. For each of the three (3) time periods, toward which of the following public officials or policy-making bodies did you direct political activity regarding the ozone-depletion issue? (Check all that apply.)

| | 3/85 - 12/86 | 12/86 - 12/88 | 1/89 - present |
|---|---|---|---|
| U.S. PRESIDENT | [ ] | [ ] | [ ] |
| U.S. SENATE | [ ] | [ ] | [ ] |
| U.S. HOUSE OF REPRESENTATIVES | [ ] | [ ] | [ ] |
| U.S. STATE DEPARTMENT | [ ] | [ ] | [ ] |
| ENVIRONMENTAL PROTECTION AGENCY (EPA) | [ ] | [ ] | [ ] |
| FOREIGN COUNTRY EXECUTIVE BRANCH | | | |
| Name most important country. _____ | [ ] | [ ] | [ ] |
| FOREIGN COUNTRY LEGISLATIVE BRANCH | | | |
| Name most important country. _____ | [ ] | [ ] | [ ] |
| U.N. ENVIRONMENT PROGRAMME (UNEP) IN NEW YORK | [ ] | [ ] | [ ] |
| COMMISSION OF THE EUROPEAN COMMUNITY (EC) IN BRUSSELS | [ ] | [ ] | [ ] |
| OTHER | | | |
| Please name. _____ | [ ] | [ ] | [ ] |

3. There may be difficulties or problems in the relation between your firm and public policy-makers. For each of the three (3) time periods, which of the following problems were present in your relation with each of the policy-makers you identified above?

A. DATA: The policy maker did not sufficiently know or understand your position on ozone depletion.
B. AGREE: The policy maker did not entirely agree with your position on ozone depletion.
C. SKILL: The policy maker was not sufficiently able to help pursue your position on ozone depletion.
D. WORK: The policy maker did not earnestly try to pursue your position on ozone depletion.
E. NONE: You did not have serious problems in your relation with the policy maker regarding ozone depletion.
F. N/A: You did not engage in political activity on ozone depletion with respect to this policy maker.

(Circle the letters that correspond to problems that were present.)

| | 3/85 - 12/86 | 12/86 - 12/88 | 1/89 - present |
|---|---|---|---|
| U.S. President | A B C D E F | A B C D E F | A B C D E F |
| U.S. Senate | A B C D E F | A B C D E F | A B C D E F |
| U.S. House of Representatives | A B C D E F | A B C D E F | A B C D E F |
| U.S. State Department | A B C D E F | A B C D E F | A B C D E F |
| U.S. EPA | A B C D E F | A B C D E F | A B C D E F |
| Executive branch of foreign country | A B C D E F | A B C D E F | A B C D E F |
| Legislative branch of foreign country | A B C D E F | A B C D E F | A B C D E F |
| UN Environment Programme | A B C D E F | A B C D E F | A B C D E F |
| European Community | A B C D E F | A B C D E F | A B C D E F |
| Other | A B C D E F | A B C D E F | A B C D E F |

4. There are many political activities you could use to resolve the problems that you might experience in your relation with each of the policy-makers. For each of the three (3) time periods, which of the following political activities did you use to try to resolve your problems?

A. LOBBY: Direct contact between a representative of your firm and a policy maker (lobbying).
B. RESEARCH: Reporting the results of scientific research to a policy maker.
C. SURVEY: Reporting the results of an opinion survey to a policy maker.
D. TESTIFY: Participating in an administrative hearing or testifying at a congressional hearing.
E. LEGAL: Participating in litigation before an administrative agency or the courts or other legal measures.
F. SERVICE: Serving on an advisory committee or task force established by public officials.
G. MOBILIZE: Asking employees or other stakeholders to contact policy-makers in support of your position.
H. N/A: You did not engage in political activity with respect to this policy maker.

(Circle the letters that correspond to the political activity you used.)

| | 3/85 - 12/86 | 12/86 - 12/88 | 1/89 - present |
|---|---|---|---|
| U.S. President | A B C D E F G H | A B C D E F G H | A B C D E F G H |
| U.S. Senate | A B C D E F G H | A B C D E F G H | A B C D E F G H |
| U.S. House of Representatives | A B C D E F G H | A B C D E F G H | A B C D E F G H |
| U.S. State Department | A B C D E F G H | A B C D E F G H | A B C D E F G H |
| U.S. EPA | A B C D E F G H | A B C D E F G H | A B C D E F G H |
| Executive branch of foreign country | A B C D E F G H | A B C D E F G H | A B C D E F G H |
| Legislative branch of foreign country | A B C D E F G H | A B C D E F G H | A B C D E F G H |
| UN Environment Programme | A B C D E F G H | A B C D E F G H | A B C D E F G H |
| European Community | A B C D E F G H | A B C D E F G H | A B C D E F G H |
| Other | A B C D E F G H | A B C D E F G H | A B C D E F G H |

5. Political activities may have varying utility for resolving problems in your relations with different policy makers. How useful is each political activity for resolving the problems that you experience in your relation with each of the policy makers?

1. The tactic is VERY USEFUL with regard to this policy maker.
2. The tactic is SOMEWHAT USEFUL with regard to this policy maker.
3. The tactic is SLIGHTLY USEFUL with regard to this policy maker.
4. The tactic is NOT USEFUL AT ALL with regard to this policy maker.

(Circle the number that corresponds to the level of utility of the activity.)

| | LOBBY | RESEARCH | SURVEY | TESTIFY |
|---|---|---|---|---|
| U.S. President | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| U.S. Senate | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| U.S. House of Representatives | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| U.S. State Department | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| U.S. EPA | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| Executive branch of foreign country | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| Legislative branch of foreign country | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| UN Environment Programme | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| European Community | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |

| | LEGAL | SERVICE | MOBILIZE |
|---|---|---|---|
| U.S. President | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| U.S. Senate | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| U.S. House of Representatives | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| U.S. State Department | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| U.S. EPA | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| Executive branch of foreign country | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| Legislative branch of foreign country | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| UN Environment Programme | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |
| European Community | 1 2 3 4 | 1 2 3 4 | 1 2 3 4 |

6. How important is the issue of ozone-layer depletion policy to your firm? (Please check your response.)

[ ] VERY IMPORTANT
[ ] SOMEWHAT IMPORTANT
[ ] SLIGHTLY IMPORTANT
[ ] NOT IMPORTANT AT ALL

7. What proportion of your business is affected by policy intended to protect the ozone layer? (Please check your response.)

[ ] 76 - 100 PERCENT
[ ] 51 - 75 PERCENT
[ ] 26 - 50 PERCENT
[ ] 25 PERCENT OR LESS

8. How successful have you been so far in finding alternatives to chlorofluorocarbons (CFCs) and halons in your products or processes? (Please check your response.)

[ ] VERY SUCCESSFUL
[ ] SOMEWHAT SUCCESSFUL
[ ] SLIGHTLY SUCCESSFUL
[ ] NOT SUCCESSFUL AT ALL

9. Please list the products you make or use that are affected by policy intended to protect the ozone layer.

_____

_____

_____

_____

_____

10. **Please indicate the name of the department in which you work.**

_____

11. **Please give the title of your position.**

_____

12. **If you would be willing to discuss some of the answers above on the telephone, please give your name and telephone number:**

_____

(____)_____

13. **If you would like to receive a summary of the questionnaire results, please give your name and address:**

_____

_____

_____

_____

**THANK YOU FOR YOUR COOPERATION.**

## NOTES

1. Of course, ozone depletion policy has economic, political and technological implications. Economic implications include changes in the cost structures of firms and industries and potential tax increases. Political implications include power struggles between different national governments and between domestic structures of the United States government, as well as reputational impacts on firms for the stance they take on proposed policies. Technological implications include the need to develop alternatives for ozone depleting substances. However, because the intention of ozone depletion policy is to prevent environmental destruction for the public good, it is social policy.

2. The propositions make no reference to variations based on policy type, because it remained constant in this study (social policy). However, the propositional analysis can be extended to include variations in policy type (see Getz, 1991).

3. Operational definitions of the variables are given in the survey shown in the Appendix.

4. The rigorous level of $p \leq .01$ was used to measure significance for two reasons: (1) chi-square analyses can be distorted by large sample sizes, sometimes producing "false positives" or Type II errors; and (2) this was an exploratory data analysis, and, thus, it ought to be characterized by the principle of skepticism (Hartwig & Dearing, 1979).

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# GROWTH STRATEGIES AND CORPORATE TAXATION:

## POLITICS AS CAUSE AND EFFECT



Cathie Jo Martin

## INTRODUCTION

Confronted with the corporate changes in the Tax Reform Act of 1986, a well-educated Martian might conclude that American business had slipped from its privileged position. The reform act was expected to shift about $120 billion from individual to corporate taxpayers. Although the act reduced the corporate rate from 46% to 34%, it eliminated or greatly scaled back most of the selective incentives developed over the years to promote economic growth. The explicit rationale for these changes was to instill horizontal equity into the system and to get government out of the business of directing investment decision.[1]

Our intergalactic observer would also be surprised by the nature of the policy process which delivered the reform act. The politics of reform was very "state-centered," in that, politicians initiated the policy and legislators sought to restrict business involvement during the legislative process. Although a segment of the business community supported changes in the distribution of the tax

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burden, policy entrepreneurs clearly led the initiative and limited concessions to special interests with a zero-sum rule demanding that all changes be revenue neutral (Birnbaum & Murray, 1987, pp. 17-22; Conlan, Wrightson, & Beam, 1990). Special interests were also excluded through a high degree of bipartisanship. Although this cooperation ebbed and flowed, interparty agreement kept reform moving forward at critical junctures.

How can we explain this fairly profound shifting of the tax burden back onto business, and the relatively limited role of corporate interests in legislating this policy? In this paper, I argue that the unusual features of the Tax Reform Act of 1986 reflected a pronounced change in the way that government leaders viewed economic growth, and a new politics to achieve that growth. Tax reform attempted to fundamentally reconstruct corporate taxation around very different assumptions about accumulation, what we might call "postindustrial" growth. This view suggested that the tax incentives for investment in capital-intensive manufacturing industries no longer served their purpose. Investment in human resources and in information-intensive activities was as important as the expansion of plant and equipment, and should not be discriminated against by the tax code.

The reduced role for business must also be understood as a byproduct of the new approach to economic growth. The new growth strategy compelled a very different role for the state in the economy and a different kind of politics from the old order. The tax investment incentives were created in the 1960s, at a time when Keynesian economists prescribed government intervention for economic and social ills. Executive branch entrepreneurs sought support from allies in the business community to carry out these Keynesian mandates. Thus, increased business participation in policy making was an outgrowth of increased state intervention in the economy.

The growth prescriptions underlying tax reform in 1986 favored tax neutrality, less government direction of private investment decisions, and generally less intervention into the economy. This scaled-back role of the state suggested a scaled-back role for special interests as well. In a policy would of reduced state intervention, political entrepreneurs had less reason to mobilize their private sector allies. Thus, the new growth strategy affected both the policy *process* and *content* of tax reform.

The tax reform case illustrates an essential truth about corporate political behavior—that the levels and forms of business participation are greatly influenced by the economic goals and assumptions of government actors. How policy makers think about economic growth shapes their view of the appropriate corporate role in the political process. Thus, there is a relationship be tween the overarching growth strategies guiding state intervention in the economy and the level of business activism.

Corporate activism is tied to economic gr wth strategies in the following way. First, business political activity reflects not only corporate America's own

decision to mobilize, but also political leaders' actions to stimulate private sector participation. Thus corporate political activity can stem from either bottom-up activism or from top-down mobilization by government agents who view business as an important source of support (Martin, 1989). Second, different goals for economic growth elicit different levels and types of state intervention. Consequently, political leaders' efforts to cultivate corporate allies will be shaped by what the former want to achieve. Third, when the ruling political coalition becomes committed to an economic path, a repertoire of political interventions becomes more desirable. Thus, economic development has an internal logic that lends favor to certain forms of political arrangements over others. Overarching economic strategy suggests certain political forms. Thus in thinking about the sources of business activism, one must not overlook the larger economic ends to which such activism is directed and state efforts to guide business toward those ends.

## THE PRIVILEGED POSITION OF BUSINESS AND GROWTH STRATEGIES

The relationship between economics and politics has been a question of perennial interest for political scientists. A wide range of theorists from structural Marxists to modernization theorists recognized a primacy of economic systems in political life. Marxists argue that economic systems have a functional need for certain kinds of political arrangements to maintain their reproduction. Political superstructures serve functions for economic development such as assuring accumulation and maintaining the hegemony of the dominant class. Poulantzas, for example, argued that the historic shift from feudalism to capitalism created the need for a different kind of states. No longer was a directly-coercive political apparatus necessary to maintain the relations between classes. The seeming free exchange of labor for money under capitalism allowed class relations to be negotiated outside the state sphere (Poulantzas, 1978). In advanced capitalist countries, states will not make policy that goes against the interests of the dominant class, because the government depends on that class for its own financial continuance. Thus, Lindblom (1977) argues that business enjoys a "privileged position" vis-à-vis government by virtue of its control over investment decisions.

Modernization theorists share a bias for the primacy of the economic. They believe that convergence will take place between governments in all like societies. Skowronek argues that the traditional modernization view of state-building saw political development as "the natural and adaptive reaction of governments to changing conditions" (Skowronek, 1982, p. viii.) Huntington argues that economic systems at certain stages of development have structural-functionalist requirements for political institutions.[2]

The idea that political processes are guided by economic structures is also found in the literature on corporate strategy. Stigler (1971) and Posner (1971) develop an economic theory to explain when companies will organize collectively to seek the benefits of regulation. Porter (1980) expands this analysis of the industrial sector characteristics which influence the rules of and strategies for competition. Ferguson (1984) uses an industrial sector analysis to understand firm involvement with public policy.

The argument that political behaviors are, in a sense, determined by the economic system has been criticized on four general grounds. First, the microfoundations of this abstract relationship are ignored. If one accepts that certain kinds of political behaviors are functional for economic systems, one must, none the less, identify the source of this judgment call. As soon as one introduces an element of human discretion into this relationship, perception becomes important. This may help to explain the anomaly identified by Block: state policies are not always functional, even though they are supposed to fulfill functional ends. (Block, 1977, pp. 6-28).

Second, this systematic influence of economic systems on political development neglects the separate and somewhat independent workings of the state. Government institutions have a logic and a politics of their own that shape the course of political development (Evans, Rueschemeyer, & Skocpol, 1985). Historically dependent events can redirect political evolution onto new paths. Some policies pose a greater threat to disinvestment than others; therefore, some will be more subject to economic constraints than others (Pierson, 1991).

Third, economic growth affects the various parts of the business community differently. Varied economic policies create different winners and losers (Kurth, 1979, Gourevitch, 1977). Therefore, unified opposition to investment-threatening state activity rarely occurs.

Finally, growth itself is not a unified concept; rather, there are a number of ways to combine resources to produce economic growth. Stages of economic development are more indeterminate than is often acknowledged. Aglietta (1987) and Lipietz (1987) argue that these various avenues to growth require very different political institutions to perpetuate growth and reproduce the system.[3] Choice of growth strategy becomes a point of contention; new approaches are arrived at through political struggle.

These criticisms suggest a primary of the political—the resolution of political conflict, both within the state and within business, determines the choice of economic growth strategies. Rather than economic systems creating a functional demand for a certain kind of politics, political developments deliver strategies for economic growth. Much of the recent work on corporate political strategies emphasizes the political institutional origins of business preference and mobilization. Thompson (1982) points out that the firm has multiple objectives and should be viewed as a "nonunitary actor" with

conflicting and ambiguous interests. Fligstein (1990) suggests that the organizational field in which a firm is located helps the company to interpret its interests and to arrive at its objectives. Best (1990) argues that firms are guided in their choices of competitive strategies by national modes of regulation. Jorde and Teece (1989) and Littlejohn (1987) suggest that the main thrust of corporate competitive strategy in the United States is changing as managers rethink the right balance between competition and cooperation. Preston and Post (1981) urge political action for corporate social responsibility. Yoffie (1984) applies the concept of strategy to the political realm in a discussion of why some companies emerge as political entrepreneurs. Vogel (1989) and Harris (1989) tie the political mobilization of business in the 1970s to the changes in the regulatory climate.

While I am in enormous sympathy with this perspective, I am hesitant to rule out the obverse relationship: overarching economic strategies can also delineate political ones. Rather there also seems to be a reciprocal systematic influence of economic growth strategies on political processes. Once commitment is made to a course of growth, economic ambitions predispose a certain kind of politics. Since political institutions are essential to implement the tasks necessary for economic growth, the choice of growth strategy must, in turn, delimit the choice of political institutions.

During periods of crisis the political institutions responsible for coordinating economic growth become objects of contention. The resolution of the crisis entails the creation of new institutions or the transformation of old ones. At this point the fluidity of the crisis period is replaced with a more stable order, and institutional rigidity sets in. One in place, the institutions of the new order have a systematic effect on politics (Hall, 1986). Politics then can be said to constitute both cause and effect. Overarching growth strategies are politically constituted as outcomes of historically contingent political struggle. But, once in place, these growth strategies create a need for certain forms of political action in both the public and private spheres.

This insight has been used to explain changes in national political systems. The perception of a failed economic regime contributes to the rejection of the system of politics surrounding it. Schmitter speculates that "qualitative changes in the production process" may signal an end to corporatism. The new productive processes will no longer necessitate national macroeconomic standards; rather, policies to improve productivity and competitiveness will be in order (Schmitter, 1989, pp. 69-70). Goldthorpe writes that convergence theorists assumed that modern capitalist polities would converge in a political order called "pluralistic industrialism." Yet, convergence theory was a product of its time during the Keynesian boom; in an era of economic decline, there is no place for this theory (Goldthorpe, 1984, pp. 317, 322). My argument here is that overarching growth strategies also have a systematic influence on private-sector political organization as well.

In the following pages I show how changes in these general growth strategies explain the radical shifts in direction of corporate taxation. First, I review the commercial Keynesian system in place in the 1960s and the politics supporting that system. Second, I discuss the decline of Keynesianism and the search for a new order. In the late 1970s, policy makers experimented with hyperaccumulation, which rejected Keynesian demand management and focused exclusively on capital investment. Third, I examine the Tax Reform Act of 1986 and suggest that this legislation represented an entirely new set of assumptions about growth. I illustrate how the emerging strategy evolved through political struggle. Finally, I discuss how the new assumptions about growth explain the change in politics surrounding tax reform.

## THE COMMERCIAL KEYNESIAN GROWTH STRATEGY

The postwar American economy was organized around a commercial Keynesian growth strategy (Calleo, 1982; Collins, 1981; Greenberg, 1985; Stein, 1984). This growth strategy had several main components:

- capital-intensive mass production with exceptionally high productivity growth rates;
- high levels of mass consumption to provide a market outlet for the tremendous output delivered by this mode of production; and
- considerable government regulation of the macroeconomy to coordinate production and consumption, maintain adequate levels of each, and provide a state climate for economic growth.

The federal tax system was one of the institutional props included in this growth strategy. The individual income tax was made progressive to stimulate demand. A progressive rate shifts the tax burden off of those lower-income individuals who are most likely to use additional resources for consumption. Corporate taxation was used to stimulate investment and savings and attend to the supply-side requisites of growth. Adequate investment was seen as essential to the capital-intensive mass-production strategy (Canterbury, 1968). The tax burden was manipulated for macroeconomic stabilization purposes: raising taxes in a boom, lowering them in a recession.

Over time, this emphasis on investment had a significant impact on the pattern of corporate taxation. Between 1954 and 1982, the effective tax rates of many sectors decreased dramatically through the creation of selective tax incentives to stimulate growth. The largest of these incentives were the investment tax credit and accelerated depreciation. The investment tax credit allowed firms to subtract $90 billion from their tax bills between 1962 and 1981. Between 1954 and 1980 the accelerated depreciation allowance added

up to almost $30 billion in tax expenditures. And after the passage of the Economic Recovery Tax Act of 1981 (ERTA) the depreciation allowance was expected to be worth $30 billion a year (Lugar, 1984, pp. 204-205).

The emphasis on investment contributed to the decline of the corporate tax share. In 1955, corporate taxes were 27.3% of total federal budget receipts; by 1983, they were down to 6.2% (Pechman, 1983, p. 353.) Also, the capital-intensive investment orientation precipitated a fairly profound redistribution of the tax burden among industrial sectors. Businesses benefited differently from the selective growth incentives. Feld (1982) found the selective incentives to disproportionately benefit large corporations. Lugar suggested that tax incentives were disproportionately available to firms with capital-intensive production processes, growing markets, large-scale operations, and high profits. Using 1975 data, he found that the "receipt of new tax credits per dollar of net income" to be as low as $.0004 in the food and food-processing industry and as high as $0.71 in the lumber and wood products industry (pp. 36-37).

Since a firm's tax burden was affected by its ability to use the selective tax incentives, there was a significant change in the distribution of the corporate income tax. By 1980 capital-intensive manufacturers were paying much lower effective tax rates than labor-intensive manufacturing and service sectors. *Tax Notes* surveyed the 1980 tax burden of major corporations in different industrial sectors and found the following: Metal manufacturing had an effective tax rate of 11.8%; paper and wood products, 11.1%; transportation, 11.9%; utilities, 8.5%; and chemical firms, 8.3%. By comparison, labor-intensive sectors were much higher: publishing and printing was 38.2%; food processing, 36.3%; food retailers, 31.5%; and nonfood retail 27.2%. High-technology firms, also labor-intensive, paid high effective tax rates as well: electronic and appliance firms paid 33.5%; instrument companies, 39.7%; and office equipment, 23.0% (Tax Analysts, 1981).

The commercial Keynesian growth strategy required a high degree of state intervention in the economy. This expanded government economic agenda led to a mobilization of business interest for several reasons. First, mobilization of societal interests (especially in the form of corporatism) was used as a mechanism for order. The Keynesian state greatly expanded benefits. Interests mobilized to take advantage of these benefits, and the state set out to organize these interests in order to reduce demands and prevent overload. The corporatist system was thus a way to rationalize decision making, which was made necessary by the expansion of public policy (Schmitter, 1979, p. 74). Corporatism also regulated class conflict, especially in the areas of distribution of national income, structure of industrial relations, and economic policy (Schmitter & Lehmbruch, 1979, pp. 151, 170).

Second, the government sought interest-group participation in the implementation of public policy. Interest involvement was essential to state

planning in order to bring major interest groups together and negotiate agreements (Schonfield, 1965, p. 231). Those who carry out the plans must be involved in decision making. For Streech and Schmitter, private-interest government had functional advantages for implementation, making policy more practical, realistic, and legitimate (Streek & Schmitter, 1985, p. 22).

Third, as macroeconomic management problems increased in the postwar period, governments looked for "Institutional and ultimately political substitutes for the declining efficiency of market mechanisms" (Goldthorpe, 1984, p. 325). Thus, countries with very different patterns of business-government relations have demonstrated a similar impulse toward greater state reliance on private interests. In the United States, reliance on private interests partially compensated for the limited capacity of the American state. Keynesian macroeconomic intervention demanded much more governmental intervention than before. Responsibility for managing the macroeconomy fell to the President, yet the executive branch received no additional power to accomplish its new task (Weatherford, 1985). Share jurisdiction with Congress hindered Presidents from pursuing the new course of macroeconomic management, especially since increased government intervention was resisted by conservatives from both parties.

The Democratic presidents of the 1960s, Kennedy and Johnson, responded to their dilemma of responsibility without power with a political innovation, the coalition strategy. These growth-oriented presidents began to cultivate business allies to mobilize support for their economic agenda, and to fight their opponents in other branches and parties. Although business people have always pressured political figures, and presidents have always consulted with leaders of industry, the coalition strategy represented a new innovation. The mobilization of business was much more systematic: trade associations representing entire industrial sectors were organized by presidential staff. Business-liaison advisors in the executive branch urged business groups to cultivate a political expertise, hitherto underdeveloped in these organizations. Thus, the rise of trade associations on the American political scene was neither a spontaneous response to the reformist policies of the late 1960s and early 1970s, nor to the structural reforms emasculating party and Congress.[4] Rather, the executive branch encouraged the expansion of interest groups as political organizations even before structural changes in Congress and reformist policy initiatives (Martin, 1991).

## THE HYPERACCUMULATION RESPONSE

The economic decline of the 1970s called into question the Keynesian growth strategy. The most visible aspect of the economic decline was a startling drop of the productivity growth rate. From 1948 to 1966, United States productivity

grew at an annual rate of 3.3%; from 1966 to 1973, 2.1%; and from 1973 to 1978, 1.2% (Wolff, 1985, p. 32). Although the productivity growth rate declined elsewhere, the problem was especially severe in the United States. Parallel to the productivity problem was the decline of the U.S. competitive position in the world economy. The merchandise trade balance first went into deficit in 1972; by 1984, it was in the red by $140 billion (President's Commission on Industrial Competitiveness, 1985, p. 13).

Problems with sustaining growth led to suffering among business and labor. The average net after-tax rate of profit of domestic nonfinancial corporations dropped from nearly 10% in 1965 to less than 6% by the second half of the 1970s (Harrison and Bluestone, 1988, pp. 115-117). Total real wages for the manufacture of durable goods dropped by 17.5% between 1973 and 1986; for nondurable goods, by 9.7%.

The slowing of the economy cast doubts on commercial Keynesian growth, bringing regulatory policy, social welfare spending,and the tax system all under scrutiny. Initially, Keynesian demand management came under attack and the balance between supply and demand shifted decisively in favor of supply-side incentives. Later, as we shall see, the supply-side measures would also be challenged.

A new breed of neoclassical economists captured the public imagination, charging that the sharp drop in productivity was connected to lagging investment and insufficient available capital. A capital shortage constrained the expansion of production, left industry with outdated plants and equipment, and inhibited the kind of technological innovation that leads to productivity growth. Two aspects of Keynesian fiscal policy were criticized. First, critics blamed the Keynesian emphasis on demand stimulation and the progressive tax rates to achieve it. Second, although investment already enjoyed favorable corporate tax treatment, neoclassical critics felt that the Keynesian measures limited investment capital. Economists from a wide range of backgrounds recommended expanding selective tax incentives to save the invest (Feldstein, 1983, pp. 23-24; Ture & Sanden, 1977).

In 1978 and 1981, tax acts greatly reduced the taxation of capital in an effort to increase investment and resuscitate the economy. The Economic Recovery Tax Act of 1981 expanded the investment tax credit and greatly enlarged depreciation benefits with the Accelerated Cost Recovery system. Kopits calculated the United States "tax subsidy rate" on manufacturing investment to be 1.3% of the asset price in 1973; by comparison the Japanese tax subsidy rate was −3.4%. Japan taxes rather than subsidizes capital. After ERTA in 1981, the U.S. rate jumped to 12.8%; Japan's rate was still −3.4%.[5] This exacerbated the differences in effective tax rates across industrial sectors.

Despite these remarkable tax transfers to the business community, the "hyperaccumulation" solution did not restore economic prosperity. First, the investment incentives failed to trigger the promised supply-side recovery and

the economy sank deeper into recession. Investment in plant and equipment for all industry sunk from $155.21 billion (1972 dollars) for the first quarter 1981 to a low point of $138.89 for the first quarter of 1983. Not until the first quarter of 1984, when spending was back up to $161.75 (1972 dollars) did investment surpass the 1981 level (Seskin & Sullivan, 1985, p. 33; Seskin 1985, p. 21.). ERTA proponents retort that the investment inducements were constricted by tight monetary policy, enacted at the same time and designed to reign in stampeding inflation. By driving up interest rates, monetary austerity deterred industry from investing and largely canceled out the expansionary impetus of the tax act. Also, the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) took away many of the benefits of the 1981 bill. Charles Hulton, Urban Institute, calculated that ERTA would cut the average tax rate on investment in new plant and equipment from 33% to 5%. TEFRA would increase it again to 16% (1984, pp. 53-4).

Second, when the economy finally recovered, increased consumer spending resulting from the huge individual rate was responsible. Ironically, despite ERTA's avowedly anti-Keynesian language, the demand-oriented individual tax cuts greatly outshone the investment measures as economic stimulants. Third, although the 1981 act failed to revive the economy, it managed to create huge budget deficits.

Simultaneous to the eroding belief in the supply-side ideology, significant sectoral change compromised the standing of capital-intensive manufucturers. Imports as a percentage of the GNP originating in the United States manufacturing sector increased from 13.9% in 1969 to 37.8% in 1979, and to 44.7% in 1986 (Harrison & Bluestone,1988, p. 9). Between 1979 and 1984, steel companies laid off 45% of their workforce. Exports of construction equipment dropped 63% from 1981 to 1983; machine tools dropped 60% in this period (Alexander, 1984, p. 63). Shifts in the composition of the economy were projected to generate new jobs in rapidly-growing, sunrise industries (Silvestri & Likasiewicz, 1987, pp. 49-50). The special incentives for manufacturing were increasingly hard to justify.

## TOWARD A POST-INDUSTRIAL ORDER

In the 1970s, Keynesian demand stimulants came under attack; in the 1980s, the supply side of the formula was questioned as well. Economists feared that the capital incentives changed the composition of investment rather than increased the total amount of capital (Eisner & Nadiri, pp. 369-83; Lugar, 1982, pp. 33-47.). Critics worried that the investment incentives created a tendency toward overinvestment (inappropriately replacing individuals with capital) and overinnovation (the excessively rapid introduction of new technology) (Bowles, Gordon, & Weisskopf, 1983; Brenner, 1990, pp. 2-3; Roach, 1987, pp. 1-2;

Schneider, 1987, 2-3.). Even the *Harvard Business Review* began to worry about the human climate in which equipment is introduced (Hayes & Abernathy, 1980, pp. 76-77; Skinner, 1974; pp. 113-114; Wheelwright & Hayes, 1985, pp. 99-109).

Dissatisfaction with the old accumulation strategy led to talk of a new postindustrial approach to growth. The postindustrial system would have the following components: Services and knowledge-intensive sectors would be much larger parts of the economy. Production processes would sift from Fordist mass production to "flexible specialization" producing small-batch specialty products. Investment strategies would, therefore, also change from an emphasis on capital-intensive investment to investment in human resources and knowledge-intensive industries. With a larger component of economic activity concentrated in services and more flexibility in manufacturing, it would no longer be necessary to maintain high levels of mass consumption for standardized products. Rather, firms would be more sensitive to fluctuations in consumption patterns. The necessity of government intervention would drop off with the decline in the need to coordinate large-scale mass production and mass consumption. Increasing internationalization would also work against a prominent role for government regulation of the economy since national boundaries have become increasingly meaningless in the new world order (Sable & Piore, 1984).

The Tax Reform Act of 1986 was geared to equalize these inequities by eliminating such cornerstones of the tax code as the investment tax credit, accelerated depreciation allowances, passive loss deductions, and the differential treatment of capital gains. All this was done in the name of tax neutrality. Granted, the act greatly benefited upper-income taxpayers by reducing the top rate of 28%. But although wealthy individuals might benefit as "heads of household," they would certainly suffer as "leaders of industry."

Tax reform was explicitly motivated by a different view of growth from the older emphasis on capital investment. First, tax reform sought to achieve neutrality or a "level playing field" with respect to investment capital. Richard Darman wrote:

> A depreciation system that is nearly neutral across classes of investment will lead to a more efficient allocation of capital (*"What Tax Reform,"* 1985, p. 129).

Second, reform was expected to revive investment in human resources. To this end, the President's Commission on Industrial Competitiveness recommended restructuring the tax code to equalize investment in physical and human capital (President's Commission on Industrial Competitiveness, 1985, pp. 28, 25).

Third, tax reform was expected to improve competitiveness by improving the utilization of resources. In this vein Andrew Lyon (1987) wrote:

> The traditional approach to economic growth has called for increasing output per capita by increasing the capital stock of the economy. However, economic growth can also be achieved by utilizing the capital stock more efficiently. Economic efficiency offers the true productivity miracle—increasing output without requiring greater inputs. Just as a factory floor can be made more efficient by a rearrangement of machinery that reduces the steps a worker must take to perform an activity, the national economy can be made more productive by achieving a better allocation of its resources...The Tax Reform act recognized that tax incentives can cause less productive investments to be chosen over more productive investments. (p. 360)

Finally, the major remaining selective tax incentive, the research and development credit, was expected to shift investment into new sectors. Darman wrote, "With the elimination of most other credits, the research and development tax credit will be more attractive, and increased R&D will improve productivity" (*"What Tax Reform,"* 1985, p. 129). Finally, the tax act, at least symbolically, signified a relative deemphasis of the role of the federal government in directing economic growth.

Despite the aggregate increase in the corporate tax burden, especially on heavy industry, many sectors actually benefited from the tax act. The rate cuts mainly helped high technology, small business, and service sectors, at the expense of heavy industry. One journalist called the Way and Means bill "a bill that is pro-consumption and anti-capital investment, one destined to accelerate the nation's already powerful shift from a manufacturing to a service economy" (Reilly, 1985, p. 106). A study of the effect of tax reform on small business found that 60% of the sample thought that tax reform would *not* lead to higher taxes. Of small manufacturing and construction firms, 44% feared a tax increase, but only 25% in service companies worried about this (Liebtag, 1987, p. 91). Hardwich Simmons, vice-chair of Shearson Lehman Brothers, said of the Senate Finance bill: "If the bill becomes law as it is, we're in fat city" (Cifelli, 1986, p. 18).

## POLITICAL STRUGGLE AND THE DAWNING OF THE NEW REGIME

The closing of the investment incentives and the radical redistribution of the corporate tax burden back onto capital-intensive sectors only makes sense with the acceptance of a radically different approach to growth. Changing assumptions about growth pushed government policy makers in the direction of tax reform, a concept increasingly viewed as necessary for a sound economic future. One Ways and Means participant in the early retreats on tax reform recalled much discussion about "promoting economic growth and cleaning up the tax system.... I walked out of there and thought: 'Jesus, public policy really becomes important'" Another reported: "A lot of the

discussion was about what was good for the economy, good for growth" (Strahan, 1989, p. 378).

Good politics reinforced good policy. With the failure of the early Reagan interventions to resuscitate the economy, the Democrats began a campaign to seize control of the economic agenda. In their 1984 bid for election, the Democrats put forth an idea that had gained currency with economic academics associated with their party:—economic restructuring through industrial policy (Rohatyn, 1983, pp. 129-133). Advocates of industrial policy also recommended tax reform, however, this was a sideshow to the main program.

The Republicans, listening to their own constituents in the high technology and service sectors, realized that they, too, needed to develop policy to enable the transformation of the American economy. The relationship between tax reform and industrial policy is made clear by Stokes (1985):

> In recent years, many liberals have advocated an industrial policy to revitalize failing industries.... In contrast, the conservatives' approach would improve productivity by restructuring the tax code, liberalizing antitrust laws and beefing up federal support for R&D, all spurring export-oriented eonomic growth. (pp. 2298-2301)

The Republicans wanted to avoid additional government intervention, worried about market distortions, and generally viewed industrial policy as an inappropriate vehicle for economic restructuring (McLennan, 1986, pp. 52-54). Instead, they chose tax reform as a solution. This solution was one which had been frequently used by the government in the past to further economic goals. Tax reform offered a mechanism for negating the skews in investment incentives and redistributing resources toward rapidly growing sectors while minimizing state intervention. In this vein, the Committee for Economic Development's Kenneth McLennan argued that tax policy avoided some of the targeting problems of industrial policy but accomplished many of the same goals:

> The Democratic Party's need to develop an alternative policy agenda to the Reagan Administration's approach has led to the advocacy of an industrial strategy based on policies which favor the development of specific economic sectors... In contrast, the Reagan Administration favors permitting the market system to identify and support the expansion of promising economic sectors and to permit the automatic and gradual decline of sectors of the economy which have lost their comparative advantage. ... The issue is which of these extremes should play the dominant role in determining the nation's economic strategy for the next decade. (p. 46-47)

Business sectors also joined the struggle over reform, bringing to the conflict vastly different conceptions of economic growth. The *National Journal* reports:

> The split has created a kind of class warfare, with capital-intensive companies contending that the President's plan is unfair to them and service-oriented industries arguing that it gives them more tax equality. The divisions are just as deep on larger questions, such as

> what the plan will do for the country's over-all economic growth and competitiveness in international markets. (Cooper, 1985, p. 1675)

Capital-intensive manufacturing and real estate sectors had the most to lose from the new approach to growth, since they had been the biggest beneficiaries under the old regime. Lobbyists for capital-intensive industries attacked the new assumptions about growth underlying tax reform, and warned that competitiveness would suffer.

Groups like the Basic Industry Association, the American Council for Capital Formation, and the Coalition for Jobs, Growth, and International Competitiveness worked to build support for policies to foster capital-intensive investment. The National Realty Committee organized 300 large developers and syndicators to fight reform.

Tax reform was supported by those parts of the business community who were most discriminated against by the earlier system. The Tax Reform Action Coalition (TRAC) was composed of firms and associations from high technology, wholesale, retail, food processing, and other small business sectors. TRAC first met June 11, 1985 and eventually had 700 groups from business and consumer causes. The goal of the group was to keep the legislative eye focused on the prize of the corporate rate cuts and not give in to more sectarian demands which could eventually push tax rates up again. Jack Albertine (American Business Conference) explained:

> The purpose of TRAC is to try to move the legislative process forward, to try to build a countervailing constituency on the other side for tax reform, because obviously there are a lot of people who don't want to see [a bill] move forward. (Cooper, 1985, pp. 1675-1677)

Business groups supporting tax reform joined the logic of equity to the logic of growth, pointing to the great variation between industrial sectors. The increasing untenability of the old investment strategy added to the demand for greater equity, since people are less willing to tolerate deviations that appear to have no useful purpose.

## NEW POLITICS FOR A NEW ORDER?

Despite the support of a segment of business, societal interests were less important in setting the agenda for tax reform in 1986 than they had been in 1981. Until the final days of the legislative battle, the power balance in the business community was heavily weighted toward the opponents of reform. Yet, the reform legislation miraculously passed. State actors were responsible for initiating the reform effort and constructed the societal coalition around the act. Although tax reform enjoyed business support, policy makers and

business allies alike sought to prevent the emergence of pork-barrel politics which has characterized other tax acts. Toward the end of the legislative effort, groups were required to support the bill in its entirety: private bargaining for tax concessions became grounds for expulsion from the group. All involved feared that particularistic demands would detract from the larger goal of lower rates.

This special zero-sum nature of the reform process was related to the assumptions of the emerging growth strategy. Under Keynesianism, a high degree of state intervention created possibilities for interest-group participation. But, a postindustrial system of growth, entailing less macoreconomic intervention by the state, could also serve to restrict interest-group involvement in policy making.

The relationship between changed economic conditions and political practices has been noted in other settings. Recent years have demonstrated a trend toward automatic government. Automatic formulas, such as the Gramm-Rudman-Hollings Act, alleviate decision-making overload, limit discretion, and help politicians avoid the pressure of taking repugnant policy decisions. Weaver explains this emergence of "automatic government" as a product of the changing fiscal climate brought on by economic decline and the budget deficit. The climate of fiscal austerity has changed the incentives of government actors. During periods of fiscal stress, politicians are less able to satisfy the many claims society-based groups make on government. Policy decisions are likely to be unpopular; therefore, politicians look for ways to avoid blame. A "circle-the-wagons" strategy allows politicians to avoid blame by seeking agreement among themselves and presenting a united front to the public (Weaver, 1988, pp. 24-26).

## CONCLUSION

In this paper, I argue that the peculiarities of the tax reform act reflect a fundamental change in our way of organizing growth. The corporate tax burden was redistributed according to entirely different assumptions about the best way to invest in our economic future.

The changing assumptions about accumulation also had an impact on the corporate political behavior exhibited in the process of legislating taxes. The new growth model mandated very different roles for both the state and society in economic management. The postindustrial economic strategy nicely complemented the general ambition of the Reagan administration to get the government out of the economy. From one perspective, the tax investment incentives could have been viewed as pro-business, growth subsidies, likely to elicit support from the Reagan administration. But from another point of view, the tax incentives could be portrayed as devices for government

micromanagement of the economy, thus contradicting the Reagan ambition to roll back the state.

This new policy approach was successfully legislated with the help of some business groups who felt discriminated against by the previous distribution of the tax burden. Therefore, business did not entirely lose its privileged position; rather, "tax reform represented a realignment in the business community" (Interview by author, 1988). But, although a segment of business played a role in the process the general contribution of societal interests was greatly diminished.

What implications to these observations have for the future course of corporate involvement with economic policy? To some extent the long-term impact of the tax reform episode on corporate behavior has been limited for two reasons. First, the assumptions of tax reform did not become the undisputed new growth strategy. The Clinton administration's leanings toward reindustrialization are likely to produce a very different system of corporate taxation, as seen in the recent proposal for an investment tax credit. Again, selective tax incentives are being discussed as mechanisms for stimulating growth; concerns about level playing fields and tax neutrality are fading into the background. This new approach to growth will undoubtedly require a different role for business as well. The Tax Reform Act of 1986 represented a significant break with the old Fordist/Keynesian growth strategy and we are currently in transition, but the new order remains to be seen.

Second, economic-system requirements for a new politics do not automatically produce radical changes in the governance structures, since other institutional legacies perpetuate behavior. Government encouraged business to mobilize in the 1960s to meet the requirements of Keynesian growth; but this does not mean that government actors have the power to demobilize significantly groups in the 1980s. But just because the state took an active role in the political expansion of business, doesn't mean that it will have the power to "put the genie back into the bottle."

Yet, the case of tax reform suggests to those with an interest in the origins of corporate political behavior that greater attention should be paid to state economic goals and to the attempts of government actors to muster private support for those goals. All too often, we assume that the political participation of business is exclusively shaped by dynamics within firms, industrial sectors, or umbrella trade associations. The macroeconomic context is too frequently neglected in this discussion.

The observation that business politicking varies across economic contexts suggests a wider range of possible corporate-political interventions than is often assumed. If the thinking and political actions of business people, like that of other Americans, is swayed by the currently popular strategies for economic growth, then business is likely to demonstrate a range of potential behaviors in the public sphere.

Finally, tax reform suggests an interaction between economic systems and political institutional development at the level of private-sector politics. This relationship is a two-stage process. The choice of a new growth strategy and the institutions within which it is embedded is the outcome of political struggle; therefore, this choice is not economically determined. Yet, the institutions generating the success and reproduction of this system will structure political processes in a new way. Politics is both a cause and effect of economic transformation.

## NOTES

1. Certainly, one should not forget that vertical equity (or having those with the ability to pay contribute more) was sacrificed even while horizontal equity (having all in one income level pay the same) was pursued.
2. Certain dynamics tied to modernization, such as, increasing class conflict associated with growth of the capitalist economy, increases in social complexity, and the expansion of markets, make the different parts of countries more interconnected, and brings countries closer together. These dynamics create an imperative for a modern state—an administrative structure that can coordinate the increasing social complexity, manage class conflict, and provide infrastructure for the expanding markets. Thus, the modernization of political institutions in advanced societies has three elements: the rationalization of authority throughout the country, the differentiation of political functions and the evolution of specialized political institutions to address these functions, and an expansion in political participation. So the growth of modern state institutions is a natural outgrowth of the forces associated with capitalist development and national integration. Societies may experiment with various political forms to fulfill these functional requirements, but the forms which are most compatible and stable ultimately are implemented (Huntington, 1968).
3. The regime of accumulation consists of the general model for growth and the institutional arrangements which coordinate production and consumption to this end. The concept specifies the conditions regulating the use of labor, the wage relation, investment, the monetary system, and other arrangements necessary for growth to transpire in an economy. For more on this, see Aglietta (1987), Lipietz (1987, p. 14), Jessop (1988), Quadagno (1988, p. 6)
4. For the contrary view, see Wilson (1986).
5. George Kopits at the International Monetary Fund, cited by Michael Barker and Michael Kieschnick, "Taxes and Growth", *Tax Notes*, Special Report (May 7, 1984), p. 635.

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# PART II

## CORPORATE PUBLIC AFFAIRS MANAGEMENT

# THE STATE OF CORPORATE PUBLIC AFFAIRS IN THE UNITED STATES:

## RESULTS OF A NATIONAL SURVEY



James E. Post and the Foundation for Public Affairs

## INTRODUCTION

The Survey on The State of Corporate Public Affairs was conducted during the Summer of 1992 on behalf of the Foundation for Public Affairs (FPA), a nonprofit organization dedicated to the advancement of the public affairs profession. A survey questionnaire was developed, pretested on a small group of public affairs professionals, revised, and mailed to a sample of 517 senior public affairs executives. The preparation and execution of the survey was conducted by the Center for Organization Development, a marketing research/consulting firm that worked closely with FPA staff. The survey generated responses from executives at 163 companies, a response rate of 31.5%.

### Survey Respondents

As shown in Table 1, survey respondents were drawn from a wide variety of industries. Manufacturing accounted for 49.1% of respondents; utilities

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*Table 1.* Industry Groupings of FPA Survey Respondents

| *Industry* | *Number* | *Percentage* |
|---|---|---|
| Banking | 10 | 6.1 |
| Diversified financial | 4 | 2.5 |
| Diversified services | 2 | 1.2 |
| Insurance | 13 | 8.0 |
| Retailing | 5 | 3.1 |
| Transportation | 7 | 4.3 |
| Utilities | 26 | 16.0 |
| Manufacturing * | 80 | 49.1 |
| Other | 16 | 9.8 |

*Note:* Within manufacturing, the leading industries were chemicals, 36.3%; pharmaceuticals, 13.3%; electronics, 12.0%; foord, 9.6%; petroleum refining, 9.6%; forest products, 9.6%; mining, 8.4%; metals, 7.2%; aerospace, 6.0%; computers, 6.0%; soaps/cosmetics, 4.8%; textiles, 3.6%; beverages, 2.4%; other, 27.7%.

accounted for 16%; no other industry group accounted for more than 9%. Among the manufacturing firms, more than one-third were chemical companies. The electronics and pharmaceutical industries also had substantial representation among respondents.

The financial profile of respondents was broadly reflective of major American industry. Sales ranged from $250 million to $115 billion; median sales were $3.5 billion. The middle 80% of companies had sales between $1 billion (10th percentile) and $18.4 billion (90th percentile). Assets ranged from $300 million to $150 billion; the median was $$6.226 billion. The middle 80% had assets between $1.5 billion and $39.04 billion.

Operating revenues ranged from $21 million to $17.3 billion, with a median level of $1.2 billion. The middle 80% of companies had operating revenues between $185 million and $7.12 billion.

Domestic employment by respondent firms ranged from 50 to 300,000 employees. The median number was 10,700 employees. The middle 80% had between 1,804 and 54,900 employees. Respondents also reported employees in foreign operations between zero and 157,000. Almost one-third reported no employees in foreign operations. However, nearly 18% of respondents failed to answer the question, leaving some doubt as to their foreign operation status. The median number of employees in foreign operations was 500; the middle 80% had between zero and 29,500 employees in foreign operations.

## PUBLIC AFFAIRS ORGANIZATION AND STAFFING

The most common name, by far, for the corporate function was "public affairs" (43.4%). The remainder were distributed fairly widely over a range of choices

including corporate affairs (5.7%), corporate relations (6.9%), corporate communications (10.7%), external affairs (6.3%), government relations (9.4%), and government affairs (8.8%).

Public affairs is a senior management responsibility in most American companies. The senior public affairs executive typically reports directly to the chief executive officer (50.9%) or executive vice president (13.8%). In half of the 158 companies responding to the question, respondents reported that the senior public affairs executive also sits as a member of the company's management committee or its equivalent.

In nearly two-thirds of the companies, the public affairs department has a formal mission statement. Public affairs still embraces a large number of activity areas, however. As seen in Table 2, there are more than twenty activity areas that fall within public affairs in more than 20% of the companies surveyed. Moreover, the complexity of the public affairs mission is growing as new areas of responsibility are added. Table 2 indicates that areas such as environmental affairs (15 of 43), education affairs (13 of 76), and grassroots (14 of 116) are among the fast-growing areas of new public affairs responsibility.

The size of public affairs departments varies widely among respondents, from as few as one professional staff member to as many as 600. Even the middle 80% of respondents evidence a wide range — from two to 50 professionals. Support staff tend to mirror the size of the professional staff, ranging from zero to 175. The middle 80% of companies had between one and 22 staff.

Reflecting broader changes in corporate staff size, about equal numbers of respondents reported increases, decreases, or no change in professional staffing during the past three years. Support staff reflected greater reductions, with one half of respondents reporting the same staffing level as 3 years ago, and decreases outnumbering increases by a three- to-two margin.

In some companies, employees from other departments are assigned to participate in public affairs activities. These are typically accounted for as "full-time equivalents" (FTEs). The survey disclosed relatively modest levels of FTE with 76% of respondents indicating either no use of FTEs (34.4%) or providing no answer (42.3%). However, among those that did respond (86 firms) and indicated some FTE resources, only 7% indicated that FTEs are charged to the public affairs department's budget; 84.9% indicated that FTE activities are not charged to public affairs. The conclusion seems to be that the use of FTEs is more limited than was anticipated, and that internal accounting practices lag actual use patterns.

The size of public affairs budgets varies widely, with the most commonly reported figures in the $1 million to $5 million range. Only two companies reported budgets of less than $100,000; eight companies reported budgets greater than $15 million. Nearly one-half of respondents reported increases in the public affairs budget during the past three years; one-quarter reported budget decreases. The survey asked respondents how public affairs budgets

*Table 2.* Public Affairs Functional Activities

| | (*a*) *Among all respondents* | | (*b*) *Added in past 3 Years* | |
|---|---|---|---|---|
| *Function/Activity* | *Number* | *Percentage* | *Number* | *Percentage of Column (a)* |
| Advertising | 58 | 36.5 | 8 | 13.8% |
| Community relations | 126 | 79.2 | 10 | 7.9 |
| Consumer affairs | 21 | 13.2 | 6 | 28.5 |
| Contributions | 119 | 74.8 | 10 | 8.4 |
| Education affairs/outreach | 76 | 47.8 | 13 | 17.1 |
| Employee communications | 95 | 59.7 | 8 | 8.4 |
| Environmental affairs | 43 | 27.0 | 15 | 34.8 |
| Federal gov. relations | 138 | 86.8 | 9 | 6.5 |
| Grassroots | 116 | 73.0 | 14 | 12.0 |
| Inst. inv./Fin'l relations | 31 | 19.5 | 9 | 29.0 |
| International PA | 52 | 32.7 | 8 | 15.3 |
| Issues management | 116 | 73.0 | 12 | 10.3 |
| Local gov. relations | 127 | 79.9 | 12 | 9.4 |
| Media relations | 113 | 71.1 | 8 | 7.0 |
| Political Action Comm. | 123 | 77.4 | 8 | 6.5 |
| Public int./policy groups | 88 | 55.3 | 4 | 4.5 |
| Public relations | 108 | 67.9 | 8 | 7.4 |
| Regulatory affairs | 54 | 34.0 | 3 | 5.5 |
| State gov. relations | 135 | 84.9 | 11 | 8.1 |
| Stockholder relations | 28 | 17.6 | 6 | 21.4 |
| Volunteer program | 68 | 42.8 | 7 | 10.2 |
| Other | 36 | 22.6 | 18 | 50.0 |
| Total Cases | 159 | | 89 | |

compared to other staff budgets. Almost two-thirds indicated that PA fared about the same as other staff areas; one-quarter felt PA fared better; only 10% felt PA had fared worse.

An important trend has been the reorganization of public affairs responsibilities. Nearly one-half of all respondents indicated some reconfiguration within the past three years. One-third of all respondents indicated a more centralized PA function today than three years ago; only 12% indicated a more decentralized approach.

## GOVERNMENT RELATIONS/REGULATORY AFFAIRS

The survey inquired about current corporate practices in the areas of federal, state, and local government relations and regulatory affairs.

Organizationally, 137 of 156 (87.8%) respondent companies have a formalized federal government relations function. As shown in Table 3, companies typically carry out a large number of activities in support of federal government relations, including use of trade associations (83.9%), use of a Washington, D.C. office (56.1%), visits from non-PA company executives (58.7%), and use of Washington law firms on retainer (21.9%) or as needed (38.1%). Many of the respondents are government contractors, and federal government relations objectives support the company's marketing strategy "very much" in 57.8% of respondents, and "somewhat" in 28.6%.

Among 88 respondent companies with Washington offices, 31.8% reported increases in staffing during the past 3 years. 43.2% reported the same level, and 22.7% reported decreased staffing. Washington office staffs range from one to 25 professionals, with the middle 80% of respondents indicating one to 10 professionals. Support staff levels are smaller, with comparable ranges.

One hundred thirty-six of 156 respondents (85.9%) report a formalized state government relations (SGR) function. The senior state government relations executive is typically located at corporate headquarters (80% of respondents) or in Washington (8.8%). As shown in Table 4, individual state government relations offices are typically created where major facilities exist; some companies coordinate state offices through regional SGR offices.

State government relations staffs range from one to nine professionals, and appear to have remained at the same employment level for more than one-half of the companies during the past 3 years. Thirty-eight of 130 reporting companies indicated increased professional employment in state relations, more than twice as many as those reporting decreases.

The relationship of SGR staff to operating-unit management was investigated. In the overwhelming majority of cases (82.5%), however, SGR professionals do not have "a solid line" reporting relationship to operating-unit managers. Only 22 of 126 respondents (17.5%) indicated that such a solid line reporting relationship did exist in their companies.

Local government relations has been an increasingly important area of public affairs activity in recent years. The survey data suggest that about one-quarter (28 of 113 respondents) have increased their local government relations efforts in the past three years, 60.2% reported the same level of LGR involvement, and 15% reported decreased involvement.

One hundred forty of 150 respondents described public affairs as having a role in their company's regulatory affairs function. (Legal departments and regulatory affairs offices also have this responsibility in some firms.) Public affairs was described as having a "major role" in 28.7%, a "moderate role" in

*Table 3.* Organization of Federal Government Relations (FGR)

| *Organizational Form* | *Number* | *Percentage* |
|---|---|---|
| FGR from DC office | 87 | 56.1 |
| FGR by HQ PA staff | 103 | 66.5 |
| DC law firm, as needed | 59 | 38.1 |
| DC law firm, on retainer | 34 | 21.9 |
| DC gov. rel. counsel, as needed | 28 | 18.1 |
| DC gov. rel. counsel, on retainer | 33 | 21.3 |
| DC public rel. counsel, as needed | 16 | 10.3 |
| DC public rel. counsel, on retainer | 7 | 4.5 |
| DC visits by non-PA executives | 91 | 58.7 |
| Trade associations | 140 | 83.9 |
| Other | 18 | 11.6 |
| Total cases | 155 | |

*Table 4.* Organization of State Government Relations (Based on 136 respondent firms)

| *Organizational Form* | *Number ** | *Percentage *** |
|---|---|---|
| Organized state by state | 56 | 41.2 |
| Organized by region | 47 | 34.6 |
| Organized by business units/divisions | 27 | 19.9 |
| Organized by product line | 7 | 5.1 |
| Other form | 26 | 19.1 |

*Notes:* * Some respondents indicated more than one form being used.
** Adds up to more than 100% because of multiple responses.

40.7%, and a minimal role in 24.0% of respondents. The PA role was described as "important and regular" by 42.6% of companies, while 57.4% referred to PA as providing "occasional assistance." Results indicated that 58.2% of the respondents work with legislative officials. Sixty percent of the respondents indicated that the commitment of public affairs resources to regulatory affairs has remained about the same over the past three years. One-third of the respondents indicated greater public affairs resources were being committed to regulatory affairs than three years ago.

## CORPORATE POLITICAL INVOLVEMENT

Corporate political activities take many forms and command substantial resources in many companies. As show in Table 5, the top three forms of corporate political activity among 155 respondents are visits to political

*Table 5.* Forms of Corporate Political Involvement
(Based on 163 respondent firms)

| *Form of Political Involvement* | *Number* | *Percentage ** |
|---|---|---|
| Political Action Committee (PAC) | 130 | 79.8 |
| Contributions to candidates | 87 | 53.4 |
| Endorsements | 22 | 13.5 |
| Visits to officials | 137 | 84.0 |
| Visits with candidates | 105 | 64.4 |
| Fairs/debates | 26 | 16.0 |
| Voter registration | 95 | 58.3 |
| Coalitions | 81 | 49.7 |
| Other | 23 | 14.1 |
| Total cases | 155 | 95.1 |

*Note:* * Percentages are based on all 163 respondents to survey. Thus, 95.1% of all survey respondents indicated some form of corporate political involvement.

officials, use of political action committees (PACs), and meetings with political candidates.

Corporate communications to various stakeholders on public-policy issues has grown in recent years. The survey asked respondents to indicate the leading audiences with which their company communicates on public-policy issues, and, further, whether specific actions are (e.g., contacting legislators or letters to the editor) requested. A summary of responses is presented in Table 6.

Political participation takes many forms, and public affairs strategists sometimes encourage the development of employee participation in politics. Employee participation can create the need for decisions regarding leave time, permissable forms of employee action on company time, and other behavioral guidelines. Among 154 respondents, 55.8% indicated that their company had no formal policy regarding time off for employees who volunteer for political campaigns, 25.3% of the companies permit time off, and 12.3% encourage the practice. Only 6.5% of the respondents prohibit time off for political campaigning.

A similar pattern appeared regarding company policy for time off for employees who run for public office—51% of the companies had no formal policy regarding the practice; 32.7% permit it; 13.7% encourage it; and only 2 firms (2.6%) prohibit it.

Political action committees are found widely among the respondent companies. Only 11% have no PACs; 77.3% have federal PACs and 54% have state PACs. Of those who answered, the overwhelming majority (78.6%) have formalized criteria for candidate support.

PAC decisions are most frequently driven by corporate headquarters according to respondents. And, mindful of campaign reform pressures, about

*Table 6.* Forms of Political Communications
(Based on 163 respondent firms)

| *Key Audiences* | *Percentage of Firms Communicating with Audience* | *Action Requests* |
|---|---|---|
| Employees | 89.5 | 71.6% |
| Retirees | 44.8 | 27.6 |
| Shareholders | 37.4 | 18.4 |
| Customers | 43.6 | 28.2 |
| Suppliers | 27.0 | 19.6 |
| "Third Parties" | 42.9 | 29.4 |

one-half of those answering said that outlawing of PACs would have a moderate influence on public affairs effectiveness; one-third said it would have little or no effect on PA effectiveness.

## ISSUES MANAGEMENT

A number of trends have emerged in the ways companies actually handle day-to-day public affairs issues. One is the centralization and rationalization of public affairs activities. The survey stated that professional observers have noted the close coordination between the political/government/public policy functions and the public relations/communications functions. More than one-half (55% of 158 respondents) indicated that these two functions were part of a single department in their company, and another 33% described a system of informal coordination. Only 11% of respondents said the two areas were "fairly autonomous." Similarly, less than 5% said that the functions were less coordinated than three years ago. Results showed that 48.7% were more coordinated, and 46.2% indicated the same level of coordination in the past three years.

There has also been a shift from separate political analysis and political action specialties toward more integrated "issues management" in the past decade. The rise of issues management as an organizing concept in public affairs departments was confirmed by the survey respondents. When asked to describe the state of development of their company's issues management program, 17.6% said "highly developed"; 53.4% said "moderately developed"; and 29.1% said "slightly or not at all developed." Full-time issues management professionals are relatively scarce, with 80% of the respondents reporting between one and three such professionals as part of their public affairs staff. One company had as many as 16 issues managers on staff.

These staffing patterns are explained, in part, by the way issues-management responsibility is allocated in individual companies. Asked to indicate which statement most accurately describes the "nature of issues management" in their

company, 35.3% of 139 respondents indicated that public affairs has the lead role in issues management; 17.3% said senior management has the lead role; and 43.2% said it was "shared between public affairs and other." Only one company indicated that line managers or other departments had the lead role. The implication seems to be that judgments are made by senior executives, including the senior public affairs executive, as to be best way to use the company's human and political resources to address specific public-policy issues. The designation of a line, staff or other manager to head an issues-management team is a function of the issue's importance and the individual's qualifications and capabilities. Asked to characterize the importance of issues management compared to three years ago, 45.7% of respondents indicated it was more important; 48.6% said about the same; and only 5.8% said less important.

## International Public Affairs

The impact of issues-management thinking is also reflected in the way companies are addressing international public affairs needs. Only 35.5% of respondents said that they had responsibility for PA issues outside the United States and 64.7% of 153 respondents said that the public affairs department does not have responsibility for public affairs outside the United States. This seems to confirm that for many companies, international public affairs issues are treated as country-specific political matters, best managed by local managers at the national level.

There are signs that the situation will change, however. When asked to describe their company's international public affairs capacity, nearly two-thirds (64.2%) of the respondents said that it was "slightly or not at all developed." Relatively few respondents (11.6%) said that their international public affairs capacity was "highly developed"; 24.2% said it was "moderately developed." Yet, 41.2% of respondents said that the public affairs department's role in international public affairs had increased in the past three years; another 41.2% said it stayed the same. The growing importance of international public affairs work is clear, as is the view of professional public affairs managers, that the systems for managing these issues is still far from mature for most of the respondents companies.

There are other signs of conflicting managerial approaches. Less than one-third of the respondents said that public affairs has the lead role for international public affairs in their company. Line managers have the lead role in 23.5% of the cases; and line managers, with public affairs in an advisory role, had the lead role in 27.2% of the respondent companies. Thus, in more than one-half of the respondents, line managers appear to be the critical decision makers on international public affairs matters.

## LINKAGES WITHIN THE ORGANIZATION

Public affairs departments are linked to other units of the company at a variety of levels, ranging from the board of directors to operating units. The survey probed these linkages, in part, because so many companies have downsized and restructured operations in recent years, and, in part, because quality management programs have led to the reorganization of tasks and work routines in many companies.

More than three-quarters of the companies in this survey are multiple-division firms. Of these, 40% have some full-time public affairs staff at locations other than corporate headquarters. In such situations, more than half have solid line reporting relationships to operating unit management.

In nearly two-thirds of the respondent companies, public affairs departments periodically prepare a one- to-five-year public affairs plan. Such plans typically include projected activities in each functional areas of public affairs, as well as projected work for specific operating units. Table 7 shows the responses which characterize corporate public affairs staff efforts.

Public affairs expenses, once automatically treated as overhead, are being charged back to operating units more frequently. Thirty-five percent of respondents said they did charge other units for their services. Eight of 10 respondents said that only a portion of the cost was charged back, however.

Measurement and evaluation are occurring in 80% of the companies studied in the survey. Nearly three-quarters indicated their company has instituted a quality program, but only 46% said that the public affairs department had instituted a quality program. Thirteen of 70 (18.6%) said their PA quality program was well-developed; 58% said they had made some progress; and 23% said it was only slightly developed. Still, more than half of the respondents said the quality program was "very important" to them as a manager, and 38% added that it was "moderately important." Only 6% said it was of limited or no importance.

## CONCLUSION

The Foundation for Public Affairs survey on the state of corporate public affairs provides an up-to-date reading on how companies are managing the business -government-society relationship. In the tradition of surveys done by The Conference Board and a small number of academics, the foundation's survey provides an important benchmark of corporate practice in the 1990s.

Corporate political involvement has expanded considerably in recent decades, and seems likely to continue as the interests of business, government, and other social interests intersect more frequently in a global economy. The arrival of the Clinton administration in Washington, D.C., and the inevitable

*Table 7.* Public Affairs Efforts Vis-à-Vis Operating Units

| | *Systematic/Ongoing* | | *Informal/ad hoc* | |
|---|---|---|---|---|
| *Activities* | *Number* | *Percentage* | *Number* | *Percentage* |
| 1. Provide operating units with advice, special studies, and information | 85 | 52.1 | 42 | 25.8 |
| 2. Foster coordination of public affairs activities among operating units | 73 | 44.8 | 50 | 30.7 |
| 3. Monitor and assess the public affairs activities of operating units and review conformity with corporate policy | 51 | 31.3 | 50 | 30.7 |
| 4. Review and evaluate public affairs plans of operating units. | 23 | 14.1 | 54 | 33.1 |
| 5. Participate in the strategic planning of the operating units. | 32 | 19.6 | 39 | 23.9 |

turnover of federal bureaucrats and regulators would stimulate corporate activity, even if President Clinton had not promised a wide range of major initiatives. That campaign promised to address health care, the national deficit, international trade agreements, environmental issues, and dozens of other complex areas of interest and guarantees a turbulent political scene in the near term. The results presented in this paper, and in The Foundation for Public Affairs' report, paint a clear and timely picture of how prepared American business is for a new era of political challenge.

## ACKNOWLEDGMENT

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# AUSTRALIAN PUBLIC AFFAIRS PRACTICE:

## RESULTS OF THE 1992 NATIONAL PUBLIC AFFAIRS SURVEY

Australia

M14 D73

James E. Post and the Australian Centre For Public Affairs

## INTRODUCTION

In 1992, the Australian Centre for Corporate Public Affairs conducted a survey of Australian industry to create a benchmark of public affairs organization and behavior. Modeled in part on earlier surveys conducted in the United States by the Public Affairs Council (1992) and the Boston University Public Affairs Research Group (1981, 1985), this survey represents the most up-to-date baseline understanding of how Australian companies are organizing and responding to modern corporate public affairs challenges. This paper presents a synopsis of data from the Centre's report.

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## Survey Respondents

The survey was sent to two industry groups: members of the Centre for Corporate Public Affairs and/or the Australian Business Monthly's "Top 500 Companies" (ranked by revenue). Recipients included private and public companies, both Australian and foreign. A number of government business enterprises were also included. The companies surveyed operated across all industry sectors.

Seventy companies responded to the survey. The distribution of respondents by industry is shown in Table 1. Approximately 34% of the respondents were engaged in manufacturing; 23% in natural resources industries; and 11% in financial and related services. A number of companies indicated participation in two or more industry groupings; they were included in their major industry by revenue.

## Company/Enterprise Ownership

Thirty of the seventy respondents (43%) were publicly listed in Australia; 17 (24%) were private companies, including mutuals; 16 (23%) were government owned; and 7 (10%) indicated that they did not fit into any of these categories because they were either publicly listed overseas, or, in one case, a producer-owner statutory body.

*Table 1.* Industry Profile of Respondents [a]

| *Number of Respondents* | *Industry* [b] |
|---|---|
| 4 | Agriculture, forestry, fishing, hunting |
| 6 | Mining |
| 24 | Manufacturing |
| 6 | Utilities |
| 3 | Construction |
| 1 | Wholesale and retail trade |
| 6 | Transport and storage |
| 4 | Communications |
| 8 | Finance, property, and business services |
| 1 | Community services |
| 1 | Recreation, personal and other services |
| 6 | Oil and gas |

*Notes:* [a] Classifications are based on Australian Standard Industrial Classifications (ASIC).

[b] Some companies indicated participation in more than one industry. Such companies were allocated to their *major* industry by revenue.

Forty-four of the firms (63%) were either majority (or fully) Australian owned, while 25 (36%) were majority foreign owned. One company was owned 50% Australian, 50% foreign.

## PUBLIC AFFAIRS FUNCTIONS

Respondents were asked to signify which of a set of activities could appropriately be performed under the auspices of a public affairs department. Table 2 highlights an Australian interpretation of the corporate public affairs mandate that is very broad and in general harmony with definitions accepted by public affairs managers in the United States, Canada, and Europe. Interestingly, 34% of the respondents indicated that *all* of the specified activities could be performed by a public affairs department. Other activities which respondents identified as appropriate for public affairs departments included advocacy, video production, graphic design, art collection/archives management, events organization, and corporate "counseling" on issues including organizational culture development, mergers, and acquisitions.

### Priority Activities

Respondents were asked to signify which public affairs activities (three most important activities) ranked highest for the success of their companies or enterprises. Fifty-seven percent placed issues management among the three most important public affairs activities in their organization; media relations was also named by half of the respondents. There was considerable variety among the rest of the activities, a result which reflects the diverse approaches taken by Australian firms to corporate public affairs management.

Public affairs is often a shared management responsibility in Australian enterprises. Respondents were asked to identify where in their company a list of public affairs activities were performed. Table 3 lists the activities, and indicates whether each company manages the activity in the public affairs department alone, jointly with other departments, or entirely in other departments. The results show an interesting pattern in which more than half of the respondents identify six areas of "public affairs alone" management: media relations, issues management, corporate advertising, community relations, internal communications, and line management support. Other departments "alone" only account for two areas of possible public affairs input: marketing and strategic business planning.

The Centre's analysis of these data suggests that the five most important public affairs functions in the view of Australian managers are issues management, media relations, strategic planning, government relations, and

*Table 2.* Public Affairs Functions

| *Proportion of respondents viewing the activity area as part of the PA function (%)* | *Functional Activity Area* |
|---|---|
| 99 | Media relations |
| 99 | Community relations |
| 94 | Internal communications |
| 93 | Issues management |
| 91 | Government relations |
| 87 | Line management support (research, speech writing) |
| 86 | Corporate advertising |
| 84 | External relations training (media relations training) |
| 79 | Involvement in strategic business planning |
| 75 | Stakeholder group participation (e.g., public affairs committee for an industry association) |
| 74 | International public affairs (e.g., relations with foreign governments) |
| 74 | Philanthropy |
| 70 | Investor relations |
| 63 | Marketing activities |

internal communications. None of these are done exclusively by public affairs staffs for the most part; are shared responsibilities with other parts of the organization, with strategic planning being predominantly done by others. These results confirm a broader pattern of interdepartmental cooperation and action in Australian enterprises. That is the way Australian enterprises tend to do their business.

## Organizational Structure

Eighty percent of the respondent enterprises had discrete public affairs departments. Interestingly, 12 companies (21%) have had such departments for 15 or more years, while 81 (32%) have been in existence for less then 3 years. This suggests that while some Australian companies—primarily multinational manufacturing or oil and gas firms—have a long history of formal public affairs management, most have relatively young public affairs operations. This confirms the view that corporate public affairs is still an emerging management discipline in Australia.

## Staff

Those companies with discrete public affairs departments tend to have staffs ranging from three to eight members, including one to six professionals. The data suggests these staff sizes have not changed significantly over the past five years.

*Table 3.* **Management Responsibility for Public Affairs Activities**

| *Functions* | *N/A (%)* | *PA Alone (%)* | *PA with others (%)* | *Mainly* | *Others Alone (%)* | *Mainly* |
|---|---|---|---|---|---|---|
| Media relations | 0 | 71 | 22 | Consultants | 7 | Other staff mgt |
| Issues management | 0 | 51 | 30 | Line managers/others | 19 | Corporate services/CEO |
| Corporate advertising | 7 | 58 | 13 | Marketing/other staff mgt | 22 | Marketing/other staff mgt |
| Community relations | 7 | 58 | 22 | Line managers/other staff mgt | 13 | Line managers/other staff mgt/CEO |
| Government relations | 11 | 40 | 24 | Line managers/consultants/other staff mgt | 25 | CEO/corporate services/other staff mgt |
| Internal public affairs | 35 | 33 | 16 | Corporate services/other staff mgt | 16 | CEO |
| Philanthropy | 27 | 49 | 11 | CEO/other managers | 13 | Corporate services/other staff mgt |
| Investor relations | 27 | 11 | 25 | Finance | 37 | CEO/investor relations/corp. services |
| Internal communications | 2 | 58 | 25 | HRM/line managers | 15 | HRM/other staff mgt |
| External relations training | 9 | 40 | 20 | Consultants/other staff mgt | 31 | Consultants |
| Line management support | 6 | 58 | 16 | Other staff mgt | 20 | Corporate services |
| Stakeholder group participation | 29 | 34 | 29 | Other staff mgt CEO | 8 | CEO |
| Marketing activities | 4 | 13 | 27 | Marketing/line managers | 56 | Marketing/line managers |
| Strategic business planning | 2 | 7 | 38 | Corporate services/line managers | 53 | Corporate services/line managers |

The professional expertise of Australian public affairs staffs draw heavily on journalism, public relations and communications, marketing/advertising, and politics. Only 13% of the respondents' public affairs staff were drawn from line management. This suggests a heavy bias toward viewing public affairs as a "specialist" field, with limited numbers of line managers having yet been drawn or assigned to public affairs work.

## Budget Practices

Given the size range of the respondents, actual spending on public affairs activities varied greatly. However, when adjusted for size of company, the survey analysis disclosed an average percentage of 0.01% of revenue—or $1 of public affairs spending per $10,000 of total operating revenue. Table 4 provides a further description of spending by industry category.

Apart from aggregate budget data, respondents were asked to identify what percentage of their total budgets were expended on four major activities: operating budget, corporate advertising, sponsorship and philanthropy, and products such as publications. These results are summarized in Table 5.

*Table 4.* Public Afflairs Budgets: Industry Cormparisons

| *Industry Sector* | *Average Turnover ($A)* | *Average PA Budget ($A)* | *PA Budget as Percent of Turnover* |
|---|---|---|---|
| All respondents | 1920 million | 1.63 million | 0.01 |
| Mining | 2380 million | 1.20 million | 0.05 |
| Manufacturing | 1690 million | 1.09 million | 0.06 |
| Utilities | 938 million | 1.47 million | 0.16 |
| Oil & Gas | 2570 million | 2.50 million | 0.10 |

*Note:* $n = 56$ respondents

*Table 5.* Distribution of the Public Affairs Budget

| *Average Proportion of PA Budget (%)* | *Highest Proportion Spent by any one firm (%)* | *Components of Public Affairs Budget* |
|---|---|---|
| 39 | 95 | Operating budget (staff, travel, overhead) |
| 12 | 95 | Corporate advertising |
| 13 | 60 | Sponsorship and philanthropy |
| 25 | 73 | Direct production (publications) |
| 11 | 51 | Other (promotional materials, exhibitions, consultants, community action, research) |

*Note:* $n = 56$ respondents

The survey also inquired about the practice of "charge backs"—that is, setting an internal price for public affairs services and charging other departments or business units for services rendered. Slightly more than one-third of the respondent companies (36%) utilize a charge-back system, with charges to client divisions or units ranging from 2% to 100% of actual cost. The practice seems to be taking root in Australian companies, although no consistent or "best practice" approach seems to have yet evolved.

## PUBLIC AFFAIRS WITHIN THE COMPANY

Of the 57 respondent firms with a separate public affairs department, two-thirds use the title corporate affairs, public affairs, government affairs, or external affairs. The remaining firms used a variety of names, variously emphasizing corporate communications, public relations, community affairs, or corporate relations. Among the 13 companies that did not have a discrete public affairs department, the most senior manager responsible for day-to-day public affairs activities was the chief executive officer (one case), the company secretary (one case), or a staff manager from an area such as corporate services, employee relations, or finance.

### Reporting Relationships

Among the companies with a separate department, 46% report only to the chief executive officer and an additional 35% jointly report to the CEO and another senior staff manager. Among the remaining firms, 10% have public affairs personnel reporting only to a senior staff manager while the others (9%) have public affairs personnel reporting to a manager other than senior staff or the CEO. The senior staff managers to whom public affairs officers report hold responsibility in areas such as human resources management, strategic or corporate development, finance, and marketing. Similar reporting patterns appeared among those companies that do not have a separate department, with nearly half having a direct reporting responsibility to the CEO or executive management committee.

These data confirm a pattern of public affairs contact with top management in Australian enterprises that is also found in other nations. Whatever the organizational framework, public affairs is generally treated as a responsibility intimately connected to the chief executive leadership of the firm. Whatever the title, there is no doubt that the CEO is the primary client for public affairs counsel.

### Linkage to Corporate Planning

Eighty-six percent of respondents stated that public affairs professionals in their organizations were significantly involved in the medium- to long-term

planning processes of the enterprise. More than two-thirds of these companies (68%) described a linkage into corporate strategic planning; nearly the same number (65%) described an input into the CEO/board committee planning activities. Other pathways into corporate planning include marketing (55%), human resources (28%), and industrial relations (18%).

## Level of Knowledge Regarding Public Affairs

Respondents were asked to assess the level of knowledge held by their company's managers regarding the potential or actual contribution of public affairs activities. The three types of mangers assessed were top management, other staff managers, and line managers. As shown in Table 6, the oil and gas industry ran generally ahead of others in across-the-board understanding of the value contributed by public affairs. Interestingly, in each of the industries cited, top management is generally seen as having a better understanding of public affairs than other staff or line managers.

## Evaluation of Public Affairs

As summarized in Table 7, 42 of 70 survey respondents (60%) described some effort to formally evaluate public affairs activities carried out in their company or enterprise. A mixture of quantitative and qualitative measurements are used in assessing public affairs performance. Most of these companies carry on their evaluations annually (31%), quarterly (17%), or twice per year (17%). Others indicated a monthly or end-of-project evaluation procedure.

*Table 6.* Management's Knowledge of Public Affairs

| | *Average Level of Knowledge* | | |
|---|---|---|---|
| | *Top Management* | *Other Staff Managers* | *Line Mangers* |
| All respondents | 1.97 | 2.90 | 3.23 |
| Mining | 2.00 | 3.00 | 3.50 |
| Manufacturing | 1.90 | 2.90 | 3.20 |
| Utilities | 1.70 | 2.50 | 3.00 |
| Oil & gas | 1.00 | 2.30 | 2.70 |

*Notes:* $n = 70$ respondents
Scale: 1 = highly knowledgeable
3 = fairly knowledgeable
5 = little or no knowledge

*Table 7.* Public Affairs Evaluation in Australian Companies

| *Performance Indicators* | *Type of Measurement* |
|---|---|
| Media coverage | Qualitative and Quantitative |
| Feedback from customers or key publics | Qualitative and Quantitative |
| Corporate image monitoring | Qualitative and Quantitative |
| Sales | Quantitative |
| Stated objectives for particular projects, including time, budget and activity measures | Qualitative and Quantitative |
| Benchmarks | Quantitative |
| Market indicators (including share price) | Quantitative |
| Awards/prizes received | Quantitative |

*Note:* $n = 42$ respondents

Evaluations are carried on by a mix of internal and external observers. Forty-one percent of the companies indicated that outside consultants are used; the department itself (38%) or the department head (33%) were the leading internal evaluators. Not surprisingly, evaluation results are most often reported to the CEO or corporate staff (67%).

## THE ROLE OF CONSULTANTS

Consultants are employed for much more than public affairs evaluation activities in Australian businesses. A very high percentage of respondents indicated the use of consultants to provide technical assistance in areas such as design and layout (88%) and public relations (72%). Less frequently cited were areas such as speechwriting (25%), economic analysis (19%), and government relations lobbyists (4%). In a question that probed the rationale for consultants, 81% of the respondents noted that the reason to use consultants was to "extend in-house skills and provide specialists' advice." The next highest response was "to manage work overflow," which received approval from 30% of respondents.

The use of consultants in public affairs work appears to be in a state of flux. One-third (33%) of respondents said their company's use of consultants had increased over time; 24% said their use had declined; 31% said it had not changed. The remaining 12% said that either the use of consultants had fluctuated or did not answer. The reasons given for changing the pattern of use generally paralleled the reasons for using consultants in the first place, that is, to expand the company's public affairs skills or to manage an overload of work.

## CONCLUSION: AUSTRALIAN BUSINESS LEADERSHIP

Respondents were asked to characterize the nature of their company's particular approach to public affairs compared to others in their industry and in the broad Australian business community. Only 48 respondents were willing to make direct comparisons; 17 described their own approach, stressing the uniqueness of their company's activities and the specific public affairs approach necessary to deal with the issues arising in that context.

The comparative responses are presented in Table 8. For the most part, the survey respondents believed that their own companies were among the best practitioners of corporate public affairs, whether compared to industry peers or to Australian business as a whole.

Given the nature of the survey sample, the range of industries from which respondents were drawn and the size of these firms, this survey seems to shed valuable light on the practices and thinking of Australia's leading public affairs practitioners. The data presented in this paper, and included in the Centre's larger report, suggest that corporate public affairs management is evolving toward global standards of practice and global patterns of practice. The fruit of international cooperation and information sharing—directly, through companies that do business in venues around the world, and indirectly, through public affairs professionals and consultants—is readily evident in the Australian public affairs experience.

*Table 8.* Public Affairs Self-Assessment in Australian Companies

| *Proportion (%)* | *Number of Respondents in Each Category (n)* | Comparative Quality of Public Affairs Approach |
|---|---|---|
| 31 | 15 | Better than other companies in industry<br>Better than Australian businesses overall |
| 21 | 10 | Better than other companies in industry<br>Similar to Australian businesses overall |
| 13 | 6 | Similar to other companies in industry<br>Similar to Australian businesses overall |
| 11 | 5 | Better than other companies in industry<br>Worse than Australian businesses overall |
| 8 | 4 | Similar to other companies in industry<br>Better than Australian businesses overall |
| 8 | 4 | Similar to other companies in industry<br>Worse than Australian businesses overall |
| 4 | 2 | Worse than other companies in industry<br>Similar to Australian businesses overall |
| 4 | 2 | Worse than other companies in industry<br>Worse than Australian businesses overall |

## ACKNOWLEDGMENT

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# MANAGING CORPORATE PUBLIC AFFAIRS AND GOVERNMENT RELATIONS:

## U.S. MULTINATIONAL CORPORATIONS IN EUROPE

EC
USA
M14 ~~M10~~
F23
D73

D. Jeffrey Lenn, Steven N. Brenner, Lee Burke, Diane Dodd-McCue, Craig S. Fleisher, Lawrence J. Lad, David R. Palmer, Kathryn S. Rogers, Sandra S. Waddock, and Richard E. Wokutch

## INTRODUCTION

Crafting managerial responses to globalization and turbulence has become a mainstream topic in the strategy and functional discipline literatures. Mechanisms such as strategic alliances, joint ventures, just-in-time distribution systems, offshore manufacturing, and overnight currency management have

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taken a central role in shaping strategies in the 1990s. Like many other aspects of strategic management, these activities serve essential boundary spanning roles, linking, as they do, two or more organizations. Another aspects of boundary spanning that has received relatively little systematic thinking has emerged in the application of new ideas and perspectives related to the public affairs/government relations function (PA/GR).

Of particular interest in this area is the response of firms to the emergence of the European Community (EC). As a regional economic power, in which individual country identity may be hard to give up, the EC represents an ambitious experiment in the creation of a "new community" that allows more boundaryless trade and commerce than has been possible in the past. Moreover, as product standards, pricing, labeling, and ISO 9000 compliance procedures are being developed, it is rapidly becoming clear that public affairs/government relations units may begin to have a strategic role in shaping policy for companies in the EC.

## Method

Data for this study were developed through a review of the literature on corporate public affairs/government relations and through interviews with public affairs managers in nine European companies with American headquarters and one European company. Researchers also interviewed with EC officials, consultants, and representatives of the American Chamber of Commerce in Brussels to gain their insights into the public affairs function in the EC. In-depth interviews were conducted with all respondents, each interview lasting between one and two hours. Questions in the open-ended interviews focused on the development of public affairs in the EC, similarities and differences between U.S. and European PA/GR functions, evolution of the PA/GR function over time, and the ways in which PA/GR is conducted in the EC.

## Overview

As the European Community's program of economic integration has taken shape over the past eight years, the public affairs function in corporations gained in importance, sophistication, and strategic value to the firms that operate within the EC. Evolution is a theme that pervades conversations about public affairs in Europe. First, the European Community is a living program of collaboration that is currently in a state of massive flux. Despite political pressures to slow down, the pace of change is unlikely to slow in the near future, although the direction of change is less predictable. Issues that face public affairs officers frequently result directly from changes in the EC's mission and focus. Second, the public affairs/government relations

function, different in significant ways from such operations in the United States, is itself evolving and changing to meet shifting demands related to changes in the EC and to very different operating styles and strategic initiatives of companies.

### Public Affairs in Context: The U.S. Perspective

Public affairs (PA) units of United States firms represent a form of response to turbulence in the sociopolitical environment. PA is a business function designed to monitor and respond to issues that are projected to affect the company and to political change. As such, it serves a critical boundary-spanning function between the firm and key stakeholders in the environment, in particular, governmental bodies, community organizations, and other firms including both suppliers and competitors through interactions in trade associations. Public affairs typically incorporates responsibility for managing external relations including the media. A Boston University study highlights the function as that of "a window out of the corporation through which management can perceive, monitor, and understand external change, and simultaneously a window in through which society can influence corporate policy and practice" (Post, Murray, Dickie, Mahon, & Jones 1981).

The most common activities performed by public affairs units are community relations (84.9%) and government relations (84.2%), as well as media relations (70.0%) and corporate contributions (71.5%) (Post, Murray, Dickie, & Mahon 1983). Typical public affairs units are staffed by senior management with reporting lines to top executives and the board of directors. While maintaining a presence at corporate headquarters, many firms staff Washington, D.C. offices, and some have operations in major state capitals. In addition to operating in the interest of their individual firms on specific issues, the public affairs units also collaborate with industry and professional associations as coalitions on major issues. In their most institutionalized form, the public affairs units play a key role in the strategic planning process of their companies.

## AN OVERVIEW OF THE PA/GR ACTIVITIES OF U.S. MULTINATIONAL CORPORATIONS IN THE EUROPEAN COMMUNITY

### The Public Affairs/Government Relations Function

The growth of both government and business in Western Europe and the United States has made PA/GR activities an important focus of boundary-

spanning corporate activity. Gruber and Hoewing (1980) defined public affairs as an "umbrella term" referring to corporate efforts that primarily relate to stakeholders in the noncommercial environment. Fleisher and Hoewing (1992) illustrated and categorized the broad range of activities falling under the umbrella definition, including community involvement/corporate responsibility, communications, environmental affairs, government relations, international public affairs, issues management, political action, and strategic public affairs planning. Murray (1982) suggests that the PA management function is explicitly designed to deal with public issues and political change. Others have suggested the interactive nature of public affairs through which management and society can understand and attempt to influence each other. (Post, Murray, Dickie, Mahon, & Jones, 1981; Sethi, 1976).

Moore (1982) noted that little systematic research has appeared on the historical development of PA/GR. He attributed this dearth of research to: (1) the highly dynamic nature of PA/GR and the multitude of changes that occur in PA/GR staffing, structuring, and activities and (2) the problems of agreeing on a consistent meaning for PA/GR. Other authors have spoken of the confusion surrounding definitions of the breadth and context of PA/GR (Marcus & Irion, 1987; McGrath, 1976; Sethi, 1976). These problems are associated with the sporadic, and often unsystematic, scholarly attempts to research PA/GR. This problem is especially apparent with respect to understanding the role of PA/GR in multinational corporations (MNCs) located outside the United States.

## PA/GR in the Multinational Corporation

Although there is a moderate amount of academic research on corporate PA/GR in the United States (for an overview, see Fleisher, 1992), there have been only a few scholarly attempts to illustrate and detail the *international* activities of the PA/GR function in U.S. MNCs. By the early 1970s the Conference Board had recognized the growing importance of PA/GR by MNCs and detailed the findings of several sessions of an international conference on these activities by comparing and contrasting these activities in the United States and Europe (International Conference on Public Affairs, 1971). Boddewyn and Kapoor (1972), Boddewyn (1988), and Dunn, Cahill, and Boddewyn (1979), Kapoor and Boddewyn (1973) described the external relations performed by American multinational enterprises or transnational corporations in Western Europe and Asia as of the onset of the 1970s. Gladwin and Walter (1980) and Bergner (1982) reviewed the strategic aspects of MNC PA/GR activities, although not specifically focusing on the function itself. Blake (1981) addressed the issue of how to involve foreign subsidiary's operating managers in the management of PA/GR. Most recently, Lenn

(1990) developed a typology of PA/GR strategies and structures, and Blake (1990) addressed broader PA/GR questions involved in managing the MNC social policies.

Most of these scholarly efforts have been of a historical or descriptive nature, although recent works appear to be moving in the direction of correctional or causal-comparative designs. Another area with a dearth of academic contributions is that of case study descriptions specifically focused on the international PA/GR activities of United States MNCs.

## MNCs and the European Community

The evolution of the European Community has fostered a companion growth of MNCs within Europe. New investment in member states has grown dramatically as business attempts to position itself to take advantage of the increasingly open borders throughout Europe. PA/GR offices of MNCs have blossomed in Brussels in order to monitor and influence governmental policies emerging from the EC bureaucracy.

Only recently have scholars begun to concentrate on the activities of MNCs in relationship to the EC. Patterson (1983) described the means for lobbying Brussels prior to the EC's White Paper and Single European Act. Rogers (1986) edited several chapters on lobbying activities taking place among and between the United Kingdom and Brussels. Love (1989) more recently has described the EC public policy-making environment, identifying various tacks with business can take to influence decision making. Andersen (1992) is the first major work cataloguing the interaction of business and the EC. She highlights key public policy issues and details a variety of strategies available to businesses to respond to these governmental proposals. Specific insights about business relations to the EC can be gleaned from Adamson (1988), Naerts (1990), Newman (1990), Steel (1990), and Van Schendelen (1990).

The literature and previous empirical efforts should lead scholars to consider a number of key dimensions in developing an enhanced understanding of the public affairs/government relations efforts of an MNC in relationship to the EC (see Table 1).

## Summary

The current level of knowledge about relations between MNCs and national and regional government in various contexts is growing. However, what is known about PA/GR activities and functions of MNCs and European companies of American parentage (ECAP) is clearly insufficient. Many PA/GR stakeholders recognize that there is a pressing need to better

*Table 1.* Key Dimensions for Analyzing an MNC's PA/GR Efforts

| *Dimension* | *Key Issue(s)* |
|---|---|
| 1. Structure and organization | • *Centralization of planning, decision making, activity implementation:* Autonomous EC PA/GAR unit, U.S. headquarters-directed, ECAP headquarters-directed, EC PA/GR unit with other EC-based units.<br>• *Mission statement/planning:* Formalized mission? Involvement (degree of) in ECAP business planning.<br>• *Senior PA executive:* Title, reports to (title). |
| 2. Strategic approach | • *Posture:* Proactive, reactive, interactive, inactive.<br>• *Symmetricality:* 2-way asymmetric (influence) versus 2-way symmetric (information sharing).<br>• *Overall geographic approach:* Pan-European, Member-state specific, Mixed mode approach.<br>• *Collaborativity:* Independent, work through associations. ad hoc partnering, use of consultants.<br>• *Comparison to overall MNC PA/GR approach:* Similar, dissimilar. |
| 3. Operational approach | • *Activities orientation:* Communications-oriented, government relations oriented, community relations oriented.<br>• *Lobbying presence:* Internal lobbyists present, external lobbyists utilized.<br>• *Public policy issue targets* (specify particular targets, degree, and regularity of interaction): company law, social affairs, consumer affairs, environment, competition policy, intellectual property, industrial policy, telecommunications, taxation, financial services, transportation.<br>• *Public policy stakeholder targets* (specify particular targets, degree and regularity of interaction): Bureaucratic, executive, judicial, legislative, public-at-large, various combinations.<br>• *Subfunctional inventory* (presence and importance of PA subfunctions): GR, CR, IM, PR, etc. |
| 4. Reporting relationships and information flows | • *Reporting relationships to other ECAP areas:* Vertical and horizontal relationships with line, staff.<br>• *Access to ECAP senior management:* Direct, indirect (through whom?).<br>• *Frequency and nature of communications* (with/): headquarters PA/GR, member states PA/GR, other ECAP units, other MNC units.<br>• *Sources of EC PPE information:* Internal, external, primary, secondary, owned, contracted. |
| 5. Staffing | • *Background, nationalities, qualifications of key staff members* (descriptions):<br>• *Recruitment, selection, and progression* (descriptions):<br>• *Education and professional development since EC placement* (descriptions): |

(*continued*)

*Table 1.* (Continued)

| *Dimension* | *Key Issue(s)* |
|---|---|
| 6. Context and ECAP background | • *Industry group of ECAP, product/service offerings:*<br>• *ECAP's financial performance:*<br>• *Number of employees (professional/total)* (In): MNC? ECAP? PA/GR? ECAP PA/GR?<br>• *ECAP's past history with respect to PA/GR events:* EC unit's time in operation, EC PPE issues invovement<br>• *Degree of PPE influence on accomplishment of ECAP's market objectives:*<br>• *Degree to which EC stakeholders have engaged the ECAP with respect to EC PPE decision making:* |

*Source:* Fleisher & Hoewing, 1992.

understand this increasingly important function. This need will only grow as United States MNCs continue to develop business relationships in nation states formerly closed or unattractive to U.S. business or new regional economic blocs. This challenge is currently most pronounced in the EC due to the continuing movement toward economic and political integration.

## EC: EVOLUTION AND CURRENT STATUS

The EC itself represents an entirely new kind of stage in which business-government relations take place. This section will present a brief overview of the evolution of the EC to its current status in 1993.

Writing in 1986 before the collapse of Russia and other tumultuous events surrounding the EC in 1992, Robert Gilpin argued that a mixed system of mercantilistic competition, economic regionalism, and sectoral protectionism was replacing the postwar age of multilateral liberalization (Gilpin, 1987). A benign mercantilism was the best hope for economic stability, and a cause for moderate optimism if linked to continuing United States power and leadership, joint security ties of the major economic actors, and the economic stimulus of high technology. The intervening few years have changed the context and perceptions of Gilpin's three conditions dramatically. The end of the Cold War has transformed joint security interests predicated on the Soviet threat, to disparate and independently pursued security goals among Europe, Japan, and the United States, the prime and roughly coequal actors in a new tripolar world. High technology, while surely a major stimulus to growth, increasingly has become an instrument and object of divisive zero-sum trade and domestic policies. Finally, the ability and inclination of the United States to play its sustaining role as hegemon in the waning multilateral liberal system is increasingly being

questioned. Regional rivalries seem ever more likely in the new game where economic competition and immigration patterns have become dominant measures of nations' security interests (Thurow, 1992).

The role of the EC in this study of corporate public affairs and government relations in Europe is informed by linkages to the economic foundations of the post-Cold War security system. This argument will be developed in four stages: (1) a brief historical review of the development of the EC in the post war era; (2) EC 1992, viewed as a recasting of the internal European bargain in the context of the mid-1980s; (3) Maastricht and its continuing aftermath, interpreted as the EC's effort to redefine Europe after the collapse of Russia and the end of the Cold War; and (4) speculation on the EC in the future.

The pace and magnitude of events surrounding the EC in the recent past are overwhelming: conflicting national referendums, Italy, England, and Spain's devaluations and withdrawals from the Exchange Rate Mechanism (ERM), the Edinburgh Summit in December, 1992, the launching of the twelve-nation single market on January 11, 1993, new membership application approvals for Austria, Finland, and Sweden, the French parliamentary election in March, 1993 and the second Danish Maastricht vote shortly thereafter. Through it all, Europe has reshaped itself and its role in the world. Distinguishing between the domains of trade and finance, on the one hand, and politics and security, on the other, is helpful. The former was the locus of the original EC 1992 design, while the latter was the target of the so-called "deepening" of the EC in the Maastricht Treaty. Bargaining within and among the EC members, and accommodations with outside actors and influences frames another organizational dimension of this section. Distinctions between the two domains and inside/outside bargaining have both narrowed as security concerns increasingly became the dominant independent variable of this extraordinary institutional saga of states and markets (Gilpin, 1987; Lindblom, 1977). Such is the nature of the environment now confronting the public affairs/government relations functions of ECAPs and multinational corporations in Europe.

## A Brief EC History

The Treaty of Rome, signed in March 1957, officially launched the six-nation European Economic Community (EEC) on the first day of the following year, consolidating its 1951 origins, when the Treaty of Paris established the European Coal and Steel Community. The fundamental bargaining concerns of the original partners were the binding of Germany to the rest of Europe and rekindling of European economic growth. Germany, the dominant security issue, thus became internalized, and economics the EEC's primary focus, as its name suggested. A partial internal market was created, but European projects were quite limited and national

economic interventions tolerated. Trade was to be the crucial link among the countries. The primary external bargain was national treatment of the subsidiaries of foreign firms within the market. This was the United States poker chip in return for its Cold War foreign-policy-based support of a common market entity not really in accord with the precepts of the post-Bretton Woods free trade/open markets vision.

The ensuing years, from 1958 through the genesis of the 1992 movement in the 1980s, were not conspicuously successful, spawning the terms "Europessimism" and "Eurosclerosis" in the face of continuing disappointing European economic growth rates. But, the enabling mandate of the Treaty of Rome was institutionalized. The Common Agricultural Policy (CAP) was adopted in 1962, though subsequent implementation engendered continuing strife with the United States and other agriculture-exporting GATT members outside the EC (the name change was also a harbinger of things to come). The customs union was completed, the governing institutions formulated and honed, and membership expanded, first to nine in 1973, then ten in 1981, and, finally, the present twelve in 1986. Creation of the European Monetary System in 1979 provided another clue as to future movement toward increased federation, notwithstanding the absence of the means of implementation and the years of internal bickering.

The extraordinary economic and political events subsumed under the term EC 1992 can be best understood and interpreted when considered separately. The first, a realignment of the internal EC economic bargain, as envisioned in the Commission's 1985 White Paper and the Council's Single European Act of the following year, provided a blueprint for achieving a truly single market and the political means to do so (i.e. the qualified majority requirement). The second, a politically motivated redefinition of Europe based on transformed security perceptions, was embodied in the Maastricht Treaty of December, 1991. Current EC turmoil reflects ongoing perceptions of and reactions to the conflicts engendered by these two momentous turning points in the history of the EC.

## Recasting the EC Bargain: The White Paper and the SEA

The EC's birth was a product of nation-state politics, but the EC's institutional actors played a major role in the transformation of its mission and organizational design in the mid-1980s. The failure of national corporatist strategies to produce acceptable growth rates and jobs, triggered, under commission leadership, a coalition of EC, national government, and company actors in support of a truly unified internal market as the remedy for Europessimism. The Treaty of Rome may not have provided the economic wherewithal for Europe's growth needs, but its institutional legacy provided a new venue for the art of politics. That venue became the catalyst for the new economic bargain.

The Commission's White Paper, published in June, 1985, provided the vision, the 1992 timetable, and the much discussed 279 legislative proposals designed to transform the founders' limited internal market profile into one with truly free movement of goods, services, capital, and people across member countries' national boundaries. RACE and ESPRIT, EC-wide high-technology programs initiated in the early 1980s provided a model for the White Paper's nearly all-encompassing market vision.

The Commission originated the idea of the R&D consortia in the face of failed national policies, and then European companies persuaded their national governments to support the initiatives. The Roundtable of European Industrialists (ERT), formed in 1983, became an ally of the EC initiators, an advocate of the single market, and a powerful lobby in addressing national government opposition. In the case of the revised European bargain, EC institutional origination and corporate support, was augmented by national executive leadership from countries where market-oriented solutions had regained political favor. One recent study suggests that the White Paper's tactic was to "move above and below the levels of controversy." It provided the vision and timetable on the topside, and, via the numerous legislative proposals, the nuts and bolts below, but left the political questions of gain and pain for others to decide (BRIE, 1992). Matters in between became the concern of the Council of Ministers, the official recipient of the 1985 White Paper.

The Single European Act (SEA), signed by the Council in February 1986, to take effect July 1, 1987, provided the political resources to implement the recast European bargain of EC 1992. Its most compelling change was to sweep away the Treaty of Rome's requirement for member unanimity with a qualified majority procedure that would apply on all matters pertaining to the establishment of the internal market. The veto power of EC sovereign members was no more as far as the 1985 White Paper was concerned. The SEA also abetted achievement of a single market by establishing a most favored nation clause of sorts with respect to long-standing disputes concerning national standards. Social, environmental, and R&D provisions were also enacted that would soon have political ramifications.

The 1985 White Paper and the SEA, in tandem, constituted a new internal economic plan for the EC with far-reaching consequences. But the plan also triggered a daunting agenda for EC relations with the outside world. Europe's economic performance problems were in no small measure a function of the adverse impact of Japan's fast developing economic prowess on European markets. The new bargain's inward thrust and preoccupation raised the larger question of whether "Fortress Europe" was a constituent part of the new bargain. Indeed, it has been forcefully argued that the "House of Europe," by definition, must sharply distinguish between how insiders and outsiders are treated (Thurow, 1992; Tyson, 1992). Major agenda items of the ongoing

managed trade debate, such as general versus specific reciprocity, or rules versus outcomes, speak to these issues.

The new internal bargain of EC 1992 thus begot a formidable bargaining agenda for global relations by virtue of its heightened challenged to the norms of GATT and free trade. But, these complications paled before those that were forthcoming with the collapse of the Soviet Union, German unification, and the end of the Cold War. The domains of trade and security became distinctly overlapped. The Maastricht Treaty of December, 1991, can be viewed as the EC's first considered attempt to adapt EC 1992 to this altered world. The extraordinary unfolding of subsequent EC crises and diplomacy are measures of the enormity of this task. The 1990s challenge to the public affairs/ governmental relations function of the multinational corporation in Europe has been enormously transformed as well.

## Maastricht and the Redefining of Europe

Thurow (1992), writing before the collapse of the European Exchange Rate Mechanism, but well after the transformations in eastern Europe, asserted that EC integration was unstoppable, and that Europe was most likely to dominate the tripolar world of the 21st century. Europe will win the "head to head" competition because they have no choice. Fear of rampant immigration will marshal political will. The Berkeley Roundtable has reached similar conclusions based on changed security needs as a result of the revolutions in Eastern Europe. Instability in the eastern corridor, revitalized membership pressures from wealthy countries in the European Free Trade Association (EFTA) no longer caught between East and West, and the need to further consolidate a now united Germany, argue for an EC protagonists' role in redefining Europe. The Maastricht Treaty in December 1991, the culmination of the summits of 1989 and 1991, and the two intergovernmental conferences on political and monetary union was the political response to these challenges. Thus EC 1992 stage two is an externally induced political addition to the internally derived economic focus of stage one's single market.

From this perspective, Jacques Delors' notion of "deepening" the EC with further political and monetary union was driven by the increasing interaction of forces from the economic and security domains. Deepening was supported by the same coalition that had orchestrated the politics of EC 1992 Stage One. The agenda of the first intergovernmental conference in 1991 was clearly political—the social, foreign, and defense policy initiatives, hedged with the various unanimous vote provisions, measured the tensions between acting on perceived external threats, enhancing the EC's legitimacy and governance capabilities, and the continuing vitality of old nationalist sentiments. Indeed, "subsidiarity" has become the new term for balancing the tensions between the sovereign and EC 1992 as a global protagonist. The second

intergovernmental conference, which produced the treaty on economic and monetary union (EMU), was also the product of political strategies. The goal was to further the institutionalization of an expanded Germany into the EC, whether or not the southern tier of nations would be able to meet the complex national performance indicators built into the EMU timetable.

Europe's turbulent 1992 attests to the enormity of the political challenge confronting Europe in reconstituting EC 1992 in the post-Cold War world. The second, highly politicized phase of EC 1992, unlike the 1985 White Paper, was not able to move above and below the levels of controversy. The throng of European events brought controversy to the foreground as Europe sought to redefine itself and to grow more rapidly. But, the Edinburgh Summit in December, 1992, attests to the positive inertia developed since the Treaty of Rome in 1957 and the resolve of EC 1992's leadership coalition to play a larger role in the emerging tripolar world. Consensus was reached on a wide range of issues including the EC budget, application approval for three EFTA members, and, most importantly, revised terms for a second Danish vote on Maastricht, now scheduled for Spring 1993 (*Economist,* December 19, 1992). Edinburgh defused political controversies and bough time in which "to make sure that the single market is allowed to flourish" (*Europe,* January, 1993). Recasting the European bargain and redefining Europe are increasingly similar goals as the domains of economics and security merge in EC 1992.

## Speculation on EC in the Future

The Berkeley Roundtable (1992) projects three possible future scenarios in the new tripolar mercantilist world: (1) *regional rivalry* of three largely autonomous trading blocs competing in a harsh zero-sum game based on independent security conceptions tied to winning the economic game; (2) *benign regionalism* in which three largely autonomous blocs would operate with low levels of interdependence and limited market interaction; and (3) *managed multilateralism* with strong links to the postwar system, in which rules still obtained and a mutual security system could be sustained by joint patterns of collaboration and competition. Each of the outcomes is deemed likely to include characteristics of all three, although benign regionalism is judged the least likely of the three to prevail.

Europe's future profile will be shaped in the new tripolar game. The new trade theory argues that trade is not always about mutual gain; it is often a competition about national futures where policy-induced outcomes can produce zero-sum results. Japan's continuing export-led aggressive mercantile competitive strategies are a case in point. They could be contained in ways fostering greater regional rivalry or a managed multilateralism. The EC's future profile will be greatly influenced by relations with the United States. The Clinton Administration shows signs of adopting more aggressive trade

policies. In the view of the new Chair of the Council of Economic Advisors, Laura Tyson, managed trade policies without supporting domestic industrial and technology policies, will be inadequate in the new "rigged international game.' Evidence of consolidated, Administration, international, and domestic policies spurring U.S. economic performance and specifying global rules and outcomes could push the EC toward managed multilateralism (Tyson, 1992). But, the coalition of EC and business elites cited above has increasing interest in European business initiatives such as Airbus or the R&D high-technology consortiums that could be openly at odds with American policy objectives.

The public affairs function in European firms, in ECAPs, and in American multinational corporations is very much a party to future speculation about the EC as well. With the pattern of post-Cold War structural changes beginning to emerge, increasingly, political choices will influence outcomes. Corporate public affairs strategy, the character of business-government relations, and differing comparative practice will be major contributors to that political debate. The focus of this study on corporate/EC relations is on how the forces of mercantile competition will be played out.

## PUBLIC AFFAIRS/GOVERNMENT AFFAIRS IN THE EC: THE COMPANIES' PERSPECTIVE

Of the ten firms interviewed in Brussels, nine were ECAPs (European companies of American parentage), and one was a Dutch multinational (Phillips, NV). The ECAPs were 3M, American Express, General Motors, IBM, Merck, Monsanto, NYNEX, Philip Morris, and UPS. Three of the ten firms were in service industries (telecommunication, transportation, and financial services). The remaining firms were engaged in manufacturing industries, including food and tobacco, pharmaceuticals, computers and electronics, auto, and industrial chemicals. (For more detailed profiles of each firm, see Appendix A: Company Profiles.)

Interviews were conducted with a major public or government affairs executive for Europe at each of the ten firms. A number of similarities among firms and several differences emerged from these interviews. The most common observations made by respondents concerned the style of business-government interaction in the European Community (open, accessible, collaborative); the thinness of staff at the Commission; the value placed by EC officials on high quality information; and the preference among EC officials for dealing directly with industry or association representatives rather than individual firms.

The differences revolved around three issues: industry characteristics which affected the focus and importance of government relations activities; product characteristics which affected the locus and breadth of government relations efforts; and firm commitment to its European operations.

First, firms differed in the degree of product regulation they (or their industry) faced, with the service firms being the most regulated. More regulated businesses tended to pursue a more focused issue strategy, primarily concerned with competition policy, market access, and rules.

Second, firms differed in the degree to which their products were standardized, either internationally or regionally within Europe. For example, pharmaceutical products are formulated virtually identically in all markets where they are sold, though some products are not sold in all markets. By contrast, consumer foods often differ between regions—U.S. versus Europe—and even between countries within Europe, due to local tastes and preferences. Firms with greater product standardization ("Europroducts") tended to pursue a dual-track government relations strategy aimed at both the EC and national capitals.

Third, firms differed in their "life cycle" stage and extent of their European operations. Some firms, like American Express, have been in Europe for over 100 years, while others, like NYNEX, have arrived only in the last few years. Similarly, some firms maintain full-scale operations (i.e., manufacturing, distribution, and sales), and have a presence in most or all EC countries, while others have confined their operations to sales or service centers, and/or to one or a few countries. Firms with more extensive (and longer lived) European operations tended to be more involved in current EC social legislation, as well as economic or competition policies related to their industry or business.

The public affairs/government relations (PG/GR) function seems to be conceptualized along a continuum ranging from external communication of company ethos (general self-presentation) through participation in public and government policy debates about issues of central importance to the firm (specific issue analyses and presentation of information) to direct influence, manipulation, or control of specific strategic policy or regulatory decisions by government actors ("holding the pen"). The position of the companies interviewed along this continuum seemed to depend upon two factors: overall parent corporate culture (corporate citizen versus private interest); and degree of strategic business dependence upon specific government authorization or regulation.

For example, the two firms which most clearly anchored the "holding the pen" end of the continuum were Merck and NYNEX. Both firms' representatives clearly articulated the dependence of their firm's operations on government or regulatory policy as primary rationales for both the importance of the PG/GR function within their firms (including staff size), and for the specific approach they took to the PA/GR function (strategic issues management, green papers, etc.). Further, while both of these firms worked through various associations, notably the American Chamber of Commerce, they were also the two firms which reported engaging in the

greatest degree of personal lobbying, that is, influencing of EC commission members and staff.

At the other end of the continuum, Monsanto appeared to be largely or completely disengaged from the lobbying process, working exclusively through industry associations in the area of issues management or representation. Instead, Monsanto reported a focus on communication, emphasizing information disclosure and consultation by line management with internal employee and external community leaders as their primary functional activity and responsibility.

In contrast to the diversity of approaches and functions of PA/GR officers, the organization, structure, and staffing were fairly consistent across the companies interviewed. The PA/GR office was structured as a staff function (parallels to legal, tax, and human resource functions were drawn by some interviewees), with matrixlike support relationships with line managers upon whose resources (personnel time and information) PA/GR officers draw for leadership on issues management. European PA/GR offices were staffed (at surprisingly low levels) by an executive with up to seven or eight direct reports (including secretarial and administrative), sometimes located in multiple European cities. These office/staff sizes were described as large by European standards, and were generally collateral to their United States counterparts (though in some cases, notably IBM, there was a direct upward reporting relationship between the European PA/GR executive and the senior U.S. executive with PA/GR responsibility. In most cases, the European PA/GR executive had a direct reporting relationship to a senior European executive with overall line management responsibility for European operations.

There appeared to be high levels of congruence between the United States and European PA/GR offices/functions in the companies interviewed, despite clearly articulated differences in the *style* of lobbying or influence activities as part of business-government relations activity in general between the United States and Europe. On the issue of style, there was near unanimity that the process of influencing government policy in Europe (or at least the EC) was more cooperative, more open to industry participation, and had a greater perceived need for expert input, than in the United States, where adversariality was a more dominant mode or ethos. Further, almost all interviewees commented that the Commission was interested in receiving "*reliable, high quality, information*" from business and industry, and that there also existed a strong preference in favor of business representation through associations—groups of businesses organized along industry, sector, or issue-specific lines—rather than by individual firms. All the companies interviewed appeared to have been strongly socialized to common norms on this issue, that is, the appropriate way to address the Commission. Finally, almost every company interviewed commented that ECAPS were at a disadvantage in terms of their influence relative to pure European firms (those with European parents), not

so much at the EC level, but with respect to European firms' enhanced access to member-state representatives on the Commission and to their home country parliamentarians.

## THE EVOLUTION OF PUBLIC AFFAIRS/ GOVERNMENT RELATIONS IN ECAPS IN THE EC

ECAP's public affairs officers use many of the same techniques in Europe as in the United States: issues monitoring, issue ownership, analysis, and response, and political tools such as advocacy, coalition and alliance building, and information dissemination.

### Issues in the Structure of PA/GR

There are a variety of PA/GR function-specific issues facing ECAPs in the EC: These include being an ECAP, wielding "influence without influencing," strategic use of public affairs, and the life cycle of PA in ECAPs.

#### *Being an ECAP*

In general, ECAPs want to be perceived as European firms rather than American firms. Recognizing that there may be problems if they are viewed as outsiders attempting to influence EC policy, they choose to position themselves as insiders with a natural interest in what is happening to EC policy. They attempt to achieve insider status by emphasizing their contributions to the Europeans or local economies (e.g., number of people employed, products or services produced, markets served locally), and downplaying their American heritage. In fact, some of the ECAP divisions operating in Europe are reasonably independent from their United States-based parents, lending some legitimacy to this positioning.

#### *Influence without Influencing*

Representatives of ECAPs in this study view the role of public affairs as that of information provider and expert in contrast to influencer. While admitting to direct lobbying efforts in some cases, European PA officers interviewed generally wanted to exercise "influence without influencing." Sensitive to their American parentage, ECAPs wish to be seen by members of the EC as credible sources of necessary information, rather than as directly attempting to shape EC policies. Importantly, they desired to be viewed as European companies operating in Europe, employing Europeans, and helping the European economy as a whole.

Because the European Commission is thinly staffed, has a short history, and generally operates in a less adversarial mode than United States lawmakers, access to commissioners has been both informal, dependent on the individual styles of commissioners, and relatively easy. Because the European political culture is less adversarial than that of the United States, much of the public affairs activity is conducted out of public sight. Private and informal persuasion efforts are used more commonly than in the United States. Some ECAP companies have initially stumbled in the EC by installing, as their representatives, individuals who are perceived as brash Americans who understand little about Europe or its culture and who attempt to exert influence more directly as they might in the United States (see *The Life Cycle of PA,* below). Over time, as is noted below, the PA/GR function seems to evolve, with Europeans replacing Americans and techniques of influence becoming more adapted to the European culture.

As EC integration moves away from the emphasis on policy making that has predominated to date toward implementation of policies in the member states, some PA/GR officers suggest that an increasing number of bureaucratic obstacles may begin to impede access; overall, complexity is expected to increase as this implementation continues. During the implementation phase, each member state will be responsible for individually implementing EC policies. The result will be that more public affairs activities will have to take place on numerous fronts, that is, within individual countries and simultaneously, as opposed to the more centralized, Brussels-oriented activity that has characterized the function to date.

### *Strategic Use of Public Affairs*

Some PA/GR offices in Europe, just as in the United States, are far more sophisticated in their development than others. The more sophisticated ECAPs, and perhaps their parent companies, seem to be taking their public affairs function seriously by directly linking the public affairs function to corporate strategy. The emergence of this perspective suggests that there is a developmental cycle to the recognition of the importance of the public affairs function itself. That is, companies do public affairs at first because they have to, and then they begin to understand its strategic usefulness and begin tying public affairs directly to corporate strategy.

### *Life Cycle of PA in ECAPs*

The public affairs function in ECAPs goes through a developmental cycle that resembles the development of the global firm (from the emergence of an international department, to the multinational, to the global firm as understanding grows), as well as the increasingly sophisticated application of PA technique and integration into company strategic affairs documented by

Andrews (1987). In the case of PA/GR, the developmental cycle discussed seems to involve several stages. First, a company recognizes that PA/GR is needed and sends a representative (frequently a U.S. citizen) over to Brussels on a part-time basis. Next, an office is established, typically staffed by the individual who had been serving in Brussels. The office operates this way for one or two years. Then, the company establishes a permanent office in Brussels and hires a European to run it. Finally, as some of the more advanced PA functions indicate, companies begin to understand the relationship of PA/GR to corporate strategy and include the PA/GR offices in strategic planning efforts.

From the perspective of organizing a public affairs function in Europe, the evolution of issues from the pan-European policy level to the member state administrative and implementation level may hint at a concurrent shift in the focus of PA professionals over time as well as in how PA is organized. First, PA/GR offices will need to organize for collaborative action at the pan-European level so that new policies reflect the consensus of abroad representation of individuals. Simultaneously, they will have to organize for action in member states. Second, the skills required of PA professionals performing these two functions may differ markedly. At the policy level, skills in framing of issues, in collaboration and negotiation of positions, and in performing the low-key task of influencing described above may be paramount. At the member state level, however, direct lobbying on behalf of individual firms and focusing on critical issues of implementing policy will likely be more essential.

Table 2 compares the developmental stage of U.S. public affairs units to those of EC companies. The framework, developed by the Boston University study and enhanced by Andrews, suggests in general that public affairs functions go through an evolution similar to the strategic management process. Each requires additional skills and resources and implies a broader set of linkages both within and outside the firm. Andrews describes the phase as follows:

- *Phase I–Pre-Public Affairs.* External relations activities are handled by the CEO, public relations personnel, and outside experts. Responses are ad hoc and reactive; there is little resource commitment or integration with company planning or operations.
- *Phase II–Shaping.* In response to a catalyst, external relations activities are consolidated into a small separate unit. The catalyst may be a crisis or threat to the firm's business core, or it may be an internal awareness of the need to be more efficient, to make better use of resources, or that external relations are "too much to handle anymore." Responses are reactive, but better coordinated. Some resources are formally committed to the function, and there may be some integration with planning and operations.

- *Phase III–Building.* The public affairs staff expands and centralizes. Responses are both reactive and anticipatory, depending on the issue's priority. Resource commitments grow and are identifiable in the firm's budget. Integration with planning and operations increases.
- *Phase IV–Consolidating and Refining.* Analytical tools and techniques become more sophisticated. The department continues to grow at first, but may shrink as efficiency improves. Responses are less reactive, more focused on internal and external influences. Good integration with planning, and more input into operations is evident.
- *Phase V–Integrating and Institutionalizing.* Small centralized staff retains oversight functions and some direct control, but external relations are part of operating managers' responsibilities. Responses are reactive, responsive, or proactive, depending on the nature of the issue. Identifiable resources are smaller, but actual resources are diffused throughout the operating budget and are more difficult to isolate. Good integration with planning and operations is evident.

From the table we note that public affairs can be described not only in terms individual company behaviors, but also in how they form collectives and alitions to address issues. It is evident that local presence in individual states the United States and member countries in Europe is created, along with national presence, in Washington and Brussels, respectively. To stay on top emerging issues, both European and U.S. firms maintain public affairs erations in a variety of commercial and political centers. The differences may in the more recent emergence of Brussels as a political or policy center for urope. Two distinctions from U.S. public affairs operations are apparent. irst, the EC is at a relatively early stage of development as a policy making ody for the European collective. EC's staffs are small and their workloads mense. As such, they are more inclined to respond to business positions as collective, rather than take the time to hear individual firm viewpoints. They e also in need of the type of information that companies and associations n supply, as long as these organizations are careful not to be perceived as tempting to overtly influence the legislative process. This might explain the tal role that the American Chamber of Commerce (AMCHAM) plays in lping forge the business response to issues in Europe.

Related to this early stage of development is the sense that issues frastructure elements, such as the hearings process, lobbying systems, public terest groups, administrative rule-making, and judicial review, are also in an rly stage of development. While these processes may be well developed in dividual countries, they have yet to emerge as a force in the EC collectively. econd, as a policy making body the EC has limited control over the nplementation of directives in the individual countries. From a public affairs ewpoint, issues need to be addressed not only in Brussels, but also in the

*Table 2.* European and U.S. Company Profiles in the Development Stages of Public Affairs

| *Post et al.* (*Boston University*) (*Strategic Management*) | Ad hoc response | Public relations | Environmental analysis | Strategic planning | Institutionalization |
|---|---|---|---|---|---|
| Andrews Framework | Pre-public affairs | Shape | Build | Consolidate and refine | Integrate and institutionalize |
| U.S. Firms | | | | Well developed public affairs function/firm level Washington D.C., State, local presence | |
| U.S. Associations | | Variety of trade, professional organizations, including peak associations and section specific groups, variety of public interest groups competing | | Coalitional approach to issues; join together on issues of mutual importance | |
| EC Firms | | Emerging consolidation of PA in Brussels Easy access | | | |
| | Very limited presence in Eastern Europe, Russia | Historical firm level in major market countries | | Some firms recognize the strategic use of PA | |
| EC Associations | | Evolving presence in Brussels Early stage of public interest involvement formulating industry specific coalitions | | | |

*Source:* Post, Murray, Dickie, Mahon, & Jones, 1981, and Andrews, 1987.

individual member countries. No assurance exists over the consistency of interpretation of policy in individual countries that we might take for granted in the United States.

## Issues in the Evolution of the European Community

The EC is a living program, focused primarily on monetary and economic union, the creation of one huge market from among many markets. The

primary objective of the EC is to provide economic and social improvements for member states in the form of unified labor and market economies. Although the staff of the EC is quite small by U.S. standards for a government agency (about 12,000 commission staff, excluding interpreters), the EC is charged with development of economic policy for the 12 member states. Implementation of those policies rests in the hands of the member states themselves. There are a variety of issues arising from characteristics and dynamics of the EC.

*Shift of Emphasis from Policy to Implementation*

As the EC has moved closer to reality, emphasis is rapidly shifting from the promulgation of policies, handled by the centralized EC in Brussels, to implementation, which will be handled locally. Emergent foci related to economic integration are common foreign policy, R&D policies, environment, and social policies. The market and economic integration are largely a fait accompli. Still to be developed are social and potentially political integration, which are much more politically sensitive and difficult to accomplish, as there are difficult cultural, philosophical, and political differences among member states that are far from resolution. Events during the fall of 1992 simply highlighted these complexities.

*Informal, Easy Access to EC vs. Access at the Member State Level*

Because the EC is thinly staffed, centralized, and has a relatively short history, access to and information exchange with commissioners has been relatively easy up to this point, although it has been dependent on the style and personal characteristics of individual commissioners. As the focus shifts toward implementation at the member state level, access will become correspondingly more complex as 12 different bureaucracies, some of them very complex and hard to penetrate, will need to be worked with. In this transition, "Eurocratitis" may occur at the nation-state level more than the EC, since the EC is largely involved in promulgating policies (and is amenable to good, accurate and useful information supplied by companies). More bureaucratic procedures and more difficulties in determining both who and how to access (to influence, shape policies) is likely in the implementation stages, which will be handled more at the member state than European level.

*Pan-Europeanism*

In contrast to individual country perspectives that apparently used to be pervasive (e.g., government affairs focused at the national level), a new perspective seems to be emerging that combines a national perspective (doing business at the country level) with a pan-European perspective (doing business at the regional level). While pan-Europeanism creates a tension with the

integration and consolidation of policies at the Europe level, implementation takes place through member state governmental policies, laws, and procedures (i.e., at the member state level). Organizing to deliver public affairs services and messages creates a similar tension. The development of a pan-European perspective has resulted in an emphasis in PA on industry, association, and consortium level activities which are rather important in the shaping of a broad perspective, as opposed to the views that might be offered by an individual firm. The tensions of implementation at the member state level, however, may dictate a return to both individual firm and individual country foci in the future, particularly if economic integration is imperiled by political events.

*Projected EC Changes*

Despite the political and economic turmoil that emerged as the 1992 deadline for economic integration moved closer, most observers in the study believed that the EC was essentially a fait accompli. Expectations for the future involved widening, deepening, and continuing democratization of the EC (although some of those expectations may have been shattered by recent events). The EC's membership and reach is likely to continue to grow, according to interviewees. Additional nations from Central Europe or EFTA nations are expected to join the EC in the near future. As social, political, and environmental issues become a more central focus of the EC (assuming the pact does not break up entirely), a deepening of the impact of EC policies was expected within the member states. The politics of member state approval processes for the Maastrict Theater should highlight the need for dramatic institutional changes in the EC decision making in the 1990s to deal with the relative lack of power of the EC Parliament. It is reasonable to expect the parliament to seek and acquire additional authority and power relative to the Commission and Council.

## SUMMARY

The disruptions of the common market and economic integration of late 1992 may pose even more issues for public affairs professionals in Europe than were highlighted in research that was undertaken in mid-1992. The dynamic nature of economic and political affairs in Europe, however, suggests that whatever insights can be gleaned from PA professionals may be essential to them, for there is likely to be no shortage of public affairs work to be done in Europe's future.

# APPENDIX A: COMPANY PROFILES

## 3M

### *Mission*

3M has a significant presence in Europe with 22,000 employees and annual revenues of $4 billion. Deeply involved in a variety of industries, it has 21 subsidiaries, 23 manufacturing facilities, and 13 technology centers scattered throughout Europe. The Brussels office is the coordination center for European business with all functions and divisions having representation there. Public affairs defines its mission around four objectives: protecting the corporation in regard to governmental issues, assuring consistency among all European divisions, avoiding duplication across divisions, and increasing productivity.

### *Organization and Structure*

In preparation for EC 92, 3M was in the process of reorganizing with direct responsibility for a new European Business Plan to be lodged in European Business Centres. Subsidiaries will gradually be absorbed into these centers to provide a more coordinated marketing and manufacturing strategy throughout Europe. In preparation for EC 92, an internal market steering committee reviewed proposed legislation to determine its relevance for various 3M divisions. The divisions in turn determined impact on their business and forwarded recommendations to European Market Action teams for inclusion in a coordinated political strategy. The newly constituted European Operations Committee will continue to incorporate public issues into its strategic analysis and planning.

This trend toward centralization is apparent in the Brussels public affairs office. The PA office moved to Brussels in 1988 with responsibility for monitoring a variety of issues at the EC level and communicating them to member states. Now, the office is the liaison point for all contacts with various governmental bodies, integrating the function through a "dotted line" reporting relationship at the European, division, and subsidiary levels. 3M maintains a major public affairs presence in Italy, Germany, France and United Kingdom. The Vice President of public affairs is in the process of developing a new strategic plan for public affairs to be accompanied by a new structure that links together various 3M business units as well as becoming more tightly integrated with U.S. headquarters and the Washington, D.C. office.

### *Issues*

The accelerated pace of a common European market has surfaced a number of public policy issues both at the EC and member state levels. The overriding

issue is the development of common standards that affect the full array of products which 3M manufactures. The corporation is actively involved in monitoring the discussions of EC committees charged with developing new standards and providing technical advice in regard to these proposed standards.

## American Express

### *Mission*

American Express has been a presence in banking in Europe for more than 100 years. The public affairs office is proactive and visible in shaping and implementing EC Directives that have business strategic implications. It supports headquarters and business units, works to enhance the company's reputation among constituents in Europe and attends both to national and broader EC concerns. In using influence, PA seeks to provide relevant information to the right policy makers at the right time.

### *Organization and Structure*

Public Affairs has a high profile within corporate planning at American Express and is considered a critical unit for strategic planning. The staff backgrounds are diverse with training in international politics, diplomacy, and economics (especially banking). Being European and understanding the European context of influence policy without overt lobbying is an advantage. Coordination with United States corporate headquarters can be trying, as data may not be relevant to the EC situation.

The Brussels office concentrates on issues scanning, targeting, and channeling issues to appropriate regional and national staffs. AmEx concentrates on both European and national audiences. (Since the states rights rule within EC means that all decisions are taken at the member state level, it is imperative to get the message to the member state level). Access—often social—to influence networks among EC policy makers helps prioritize where activity can shape outcomes proactively. AmEx finds the EC relatively open and accessible to its interests. The office takes the view that Europe is a work in progress and American Express has the opportunity to get in at the "soft pencil stage."

AmEx has a "leveled" approach to public affairs. National units often advance proposals for which they would like involvement or support from public affairs. Company dialogues about issues help establish horizontal and cross-national teams. After issues are identified, specific task groups are formed within AmEx and responsibility is set for who will "own" the issue and educate key managers within the company. A great deal of time is spent on internal education of business units about upcoming issues—their strategic implications and potential costs if they are not addressed.

*Issues*

Coordination of banking laws and data protection have been of particular concern to American Express. American Express has been influential in this area on the European Parliament. The head of AmEx Public Affairs noted that 95% of EC directives have been "very good news." Social policies involving environmental concerns, working conditions, immigration, and gender are upcoming considerations AmEx will be following. The single-market Europe is considered a godsend to AmEx, as it will allow more free flow of information and standardization of banking laws. AmEx has concentrated on trade and competition policy as the main route to open up new markets for key business units such as Shearson Lehman, IDS, Acuma, First Data Service, and its Travel company.

## General Motors

*Mission*

European integration presents major threats and opportunities to European businesses as integration will create winners and lowers, both among firms and industries. To be among the winners, GM perceives a need to keep close tabs on what enabling legislation is being considered and try to influence it to their advantage. The most effective way to do this is through coalition building with firms in various industry associations.

*Organization and Structure*

GM has both a government relations and public relations office in each EC country in which it operates, as well as government relations offices for different divisions. Government relations play a double role, at the EC level and at the country level. Coordination problems arise because GM Europe is a group of national companies that compete in national markets against other national firms. Since auto firms within a country are highly competitive, coordinating with others in the industry on more global issues is difficult. Government relations (GR) responsibilities include maintaining contacts with the EC, finding out what the EC is doing, and informing GM operating units. Seven people work in GR—four in general affairs. The role of the Brussels Government Relations office, via the U.S. office is to provide advice and assistance, but Europe has no real power at the corporate level in public affairs.

Brussels contains the GM Coordination Center which includes government relations (along with treasury, GMAC financing, and several other operations). The head of the coordination center also heads government relations. (GM's primary European headquarters is in Zurich, with

responsibility for vehicle production, assembly, and marketing. The components group headquarters, in Paris, oversees 47 component plants in Europe. EDS and Hughes Aircraft are headquartered are in Brussels. GM has over 130,000 employees in the EC).

*Issues*

GM has problems with the social agenda implications of European integration. Among GM's major public/government affairs (PGA) concerns are the conditions and guidelines for being a "European Company," as this status will have implications for both tax treatment and social policies, especially the European Works Councils (EWCs). The idea of EWCs is to create a level playing field within the EC to eliminate the competitive advantage firms derive from being headquartered in EC counties with less progressive social programs. GM feels the EWC provisions are too restrictive, depriving affected companies of needed flexibility; voluntary arrangements for worker participation have advantages over the EWC framework.

*Influence Style*

In general, GM uses national delegations to carry their message to the EC. Public affairs at GM needs to be coordinated with other firms with similar interests, as EC does not want to hear what individual firms think, but what industry positions are on issues. Thus, GM is very active in industry associations including ACEA (European auto manufacturers, FMMA (metal manufacturers), and the American Chamber of Commerce.

## IBM

*Mission*

IBM's External Programs encompass several functions: territory management, public affairs, support activities, government relations, and media relations. A major company reorganization has created a network of 18 separate businesses, and is an attempt to make the company more customer driven, both internally and externally.

*Organization and Structure*

Issues management is matrixlike so that all issues have an issue owner in functional line management as well as an issue manager in PA/GR. Issue owners contribute resources, knowledge, and have final decision authority for policy positions when conflicts are arise between issue managers and issue owners. IBM maintains an in-house database—Public Affairs Exchange

(PAX)—which collects information and provides access and "vertical communication" on a worldwide basis.

Following the reorganization, External Programs anticipate problems regarding how to serve each of the 18 new businesses and how to maintain "national" management and national identity. They expect this to make some government affairs activities, such as national lobbying, more difficult in future. (Currently when IBM calls on government officials, they use country nationals who are seen as more effective). Public affairs is a "power reserved by the corporation" and will remain part of the corporate staff function. The PA/GR group is losing the sense of being technical professionals, instead being forced to take a business perspective and satisfy internal "customers."

*Issues*

In Europe there are a number of issues on which IBM is presently working. In the social policy area, they are concerned about negotiations with labor and European Works Councils, which they oppose. The "consultation and information" aspects of the European legislation run contrary to IBM's policies, structure, and management principles. They also have concerns about the linkage between trade and environment. Industry issues include the software directive on shared/open systems; reducing or eliminating the 14% tariff on ICs imported into Europe; sharing technology/software development; standards for open system architecture—European versus international standards; and participation in precompetitive cooperative research ventures—like JESSI—which qualify for 50% EC tax credits if firms from two or more nations are involved.

IBM has made a very strong statement against reciprocity, both in Europe and the United States. As an example, they describe the problem regarding JESSI and SEMATECH (which excludes European and Japanese firms)—IBM has been acting as a "bridge" between JESSI and SEMATECH. This comports with the views of other firms that U.S. policy is exclusionary in ways that would make reciprocity disadvantageous to ECAPs.

*Influence Style*

IBM claims they play down their role in influencing policy and adopt a low profile in an attempt not to appear dominant. ECAPs lack national sponsors within the EC which ECEPs (European Companies with European Parents) have in their home-country ministers; however, ECAPs are approaching parity with ECEPs as states shift their thinking from parentage to the firm's contribution to local economies in terms of jobs and investment.

## Merck Sharp Dohme

*Mission*

Merck (MSD) is the largest pharmaceutical company in the world and the third largest in Europe. The pharmaceutical industry is regulated in all aspects of their business. As a result, Merck plays a great deal of attention to issues in health policy, intellectual property, drug approval process, and drug pricing.

*Organization and Structure*

The European office "belongs" to corporate public affairs. There are five people on the policy side in Europe; in addition, some use is made of consultants, but there are no lawyers on staff—MSD (and the EC) prefers to take a technocratic rather than adversarial approach. Merck believes they have the largest public affairs government relations presence in Brussels among pharmaceutical firms. Merck has a strong tradition of issues management where policy is handled on a technocratic basis. Merck works to identify opportunities, develop a network of contacts within the EC, and bring expertise to their meetings with the Commission, particularly within the context of the single-market concept/vision.

*Issues*

Merck is monitoring both single market and D.G.3 issues. The price transparency directive (1989) requiring timely decisions regarding pricing is relevant, given the current national pricing system (segregated markets—some high and some low price), with eventual price convergence to lower prices. The supplemental protection certificate restores all but five years lost in the patent approval process. Generic drugs are very limited in the EC. The EC has not been very successful in regulating the promotion and advertising of drugs—Merck is actively supporting high standards and enforceability. Regarding the animal—medicines approval criteria of safety, efficacy, quality, and social usefulness, Merck is opposing the fourth criterion as it is applied to limit "copy cat" drugs.

*Influence Style*

Where possible, Merck works through associations, particularly the European Pharmaceutical Association, Pharmaceutical Manufacturers Association, and American Chamber of Commerce. Working through industry or trade groups works well where consensus is high (patent restoration), but is more difficult where different schools of thought exist in the industry (pricing).

## Monsanto

### *Mission*

Monsanto is a medium-large chemical company worldwide, but is smaller than several dominant European firms in Europe. The public affairs office integrates the functions of government relations, media and community relations, and relations with associations and other experts to deliver "core messages." Core messages emerge from the Policy Roundtable. For any core message there is a contact group (government, customer, media, or internal), a selected audience within the contact group (e.g., national government, union within the company), and a medium for the communication (brochure, press release). Communicating core messages is part of the job of all managers/employees. One person/division serves as the designated communication staff for each "core message." That person/division works with local communications people in primary operating sties; thus an informal network (and level of issues awareness) exists throughout the organization.

### *Organization and Structure*

Monsanto defines Public Affairs, Europe, as part of its worldwide corporate communication and policy function. The company sees corporate communication as fluid, multidisciplined, and with a link to grassroots information gathering and good public relations. It takes a very nonadversarial approach to lobbying and influence in Europe. Within Monsanto, the corporate Policy Roundtable, in which 12 nations participate, meets once or twice a year; they identify key issues, both global and local/national, that straddle concerns of the operating divisions.

The job of the Brussels office is to inform and sensitize the European sites internally to issues, and less often to provide key information externally to EC policy makers. The director is an "enthusiastic amateur" in corporate communications. For external influence it works through the American Chamber of Commerce in Brussels and through a trade association of European chemical companies (CEFIC) to make its issues known. At the plant-site level, Monsanto has an active program of local communications with communities to help surface issues, communicate company decisions (plant closings, safety measures), and maintain good local relationships and favorable policy environments.

### *Issues*

Monsanto is currently tracking four major EC issues/directives: the environmental directive, which is as yet unformulated, and on which the company has not developed its position; regulation and registration of products

for development of pan-European product standards (the company favors this policy, which will save time/money and will build consumer confidence); simplification of transport documentation (also supported)—to facilitate easier to border crossing and bring cost savings through use of a single administrative document; and packaging provisions particularly with regard to waste disposal (this directive Monsanto opposes as it places responsibility for waste disposal on suppliers and mandates disposal close to the use site, potentially involving competitors in disposing of each others' waste).

## NYNEX

### *Mission*

NYNEX views its role as a telecommunications educator; it provides intelligence and communication links within the company to make business managers more knowledgeable about EC policies. The public affairs office in Brussels has a business development flavor. The office provides a support function to the business units within NYNEX and, to some extent, is an outreach or model for other Bell companies who are beginning to develop a European presence. Lobbying is openly embraced as an explicit mission, although the context is for government and industry to work together to develop a procompetitive environment. The office tries to identify key stakeholders and to maintain a reputation for providing valuable and accessible understanding of technical issues. It seeks, through building personal ties and dependence on reliable information, to become part of the EC policy infrastructure.

### *Organization and Structure*

Public affairs is a new function for NYNEX and NYNEX is new to Europe. Since NYNEX is still identified as an American company, local contacts and cooperative relationships with other telecommunications companies are imperative. Coordination between the European office and the lobbying office in Washington, D.C. is close (biweekly), but it is not clear how closely government affairs is built into overall corporate strategic planning. Effective staff members are Europeans with American educations in business, or Americans with strong language skills, knowledge of history, and cultures.

### *Issues*

Developing cooperation with other telecommunications firms and use of local content in manufacturing were areas of current interest. New opportunities for marketing services, such as selling telephone service over cable networks, were also prominent. The office closely monitors

telecommunications issues at OECD because of their effect on the European Commission.

## Philip Morris

### *Mission*

A mission or strategic objective is to make the EC dependent on industry information. However, Philip Morris is not consulted because of the national nature of the tobacco and food industries, few of which are transnational. There are 10 major players in the tobacco industry, of which 4 are state monopolies whose governments operate all manufacturing and distribution. Philip Morris needs to be alert to the possibilities of an all-European market by improving operational efficiencies and being more modern than national competitors. Taking a relatively low-profile stance, PM relies on industry associations in an attempt to overcome the diffuseness of power in its industries and to argue for more consistent legislation and more emphasis on economic efficiency rather than cultural variations in regulation and product types.

### *Organization and Structure*

The Public Affairs office was recently reorganized to encompass the corporation's food and tobacco, manufacturing, and sales components. The focus is on an issues management approach with active involvement in industry associations. The Brussels office is linked with the global public affairs office in New York. Coordination with New York is helpful, since consumer trends and tobacco industry legislation tend to migrate from the United States to Europe. Public Affairs in Brussels juggles a combination of reactive and proactive stances. In Europe, lobbying tends to come through the CEO and is often national in focus, local concerns can predominate especially in the food industry where many companies are small. U.S. corporations are more operations focused with more ambiguous mandates, younger staffs, and often with a particular interest in business development. It is an advantage to focus on Europe rather than on individual member states.

### *Issues*

Philip Morris operates 5 European plants. It tries to improve industry appeal. Operating through trade associations, it hopes to counter possible bans on tobacco advertising, labeling, restrictions, tar content, and so forth. This stance is consistent with its United States corporate strategy.

## Philips International, B.V.

### *Mission*

Philips sees the need for a pan-European approach to its external affairs activities. Philips external affairs efforts are dominated by their vision that the Japanese electronics industry and government are carrying out an orchestrated effort to dominate the world electronics market. Philip sees a major threat to its future coming from Japanese firms' economies of scale. Japan's success in penetrating the United States market has given them lower costs of production, which will eventually ensure dominance of EC markets unless the EC creates a single market to allow companies such as Philips to achieve equivalent economies of scale through learning. External Affairs should be active in helping the corporation to stay competitive, and they are thus seeking to be a major force in helping to create a single EC market.

### *Organization and Structure*

Philips External Affairs office is part of the office of the CEO, which gives them direct and frequent access to the CEO. There are five people in the central external affairs unit, but hundreds more in individual units doing issues management work. Twenty-six issue notebooks are compiled from the inputs of these (field) people. Local External Affairs managers report to top local officials in the various countries in which Philips operates plants. There is also an environmental affairs manager at each plant to deal with local environmental issues and regulations. Local External Affairs managers also come to corporate headquarters to work with External Affairs, share information, and develop company positions on issues.

### *Issues*

Clearly the need to act to avoid losing a significant market share is the number one issue for Philips external affairs managers in their work on creating an EC industrial policy to benefit Philips and the European electronics industry. The ten-point industrial policy includes an internal market for the EC; open trade; an antidumping law; cooperation among governments and industry; government procurement policies which benefit EC electronics companies; product standardization; education efforts; a "push" policy; a "pull" policy; and a level-playing-field position. Philips priorities for action include a principle that the electronics industry is important for Europe's future; the creation of a technology fund to encourage R&D; strong efforts to create competitive new products (e.g., high-definition television); and efforts to ensure sustainable coexistence with Japan (i.e., opening Japanese electronics markets to European and U.S. products). In addition, Philips seeks to enhance

European "precompetitive cooperation" to help ensure the development of standardized products. They also lobby for a uniform GATT policy based on reciprocity and for changes in laws which limit plant closings and consolidations.

### *Influence Style*

Philips seeks to influence EC public opinion through speeches by its board chairman in support of the single EC market. These speeches have created much attention and support for the concept and produced good media coverage and positive publicity for Philips. Both government officials and large European companies (BMW and Siemans) sought Philips out to share ideas. Philips has also joined a number of cooperative joint ventures in Europe and the United States to help build technological strengths to withstand Japanese dominance of the industry.

## UPS

### *Mission*

UPS entered Europe in 1976 in Germany, and grew recently with the acquisition of IML, a European express firm in 1988-1989. Currently, UPS has about 20,000 employees in Europe. The mission of Public Affairs at UPS-Europe is, internally, to work with and update country managers on issues; and externally, to maintain awareness of UPS in Europe, especially in front of "key publics"; to develop a network of KIPs (key influential people); to build relations with EC officials and national parliamentarians; and to influence policy in the prelegislative stage.

### *Organization and Structure*

Public affairs in UPS-Europe is in its infancy, and the PA director comes to this job from an operating, line-management position. The Brussels office has two staff members—one clerical. In addition, there are part-time PA coordinators (line managers and nationals) in five major EC countries where UPS does business: Benelux, United Kingdom, France, Italy, and Spain. The German office, which coordinates Central Europe, has its own PA person. In Europe, PA reports to the human resource manager; it reports to the legal department in the United States. Coordination is accomplished through quarterly meetings in different cities. PA has a matrix-like organization with an issues orientation. Keeping UPS line managers informed on the status of issues is a large part of this function.

The PA director, recognizing EC preference for industrywide rather than firm-by-firm representation, founded the European Express Organization

(EEO) in 1989, which has 30 members, including two national "post" associations and the three largest postal express firms. Most lobbying and public affairs work is done through EEO. Major activities include hosting seminars on postal issues, which bring together people from different sectors including academia and the Commission; preparing press articles and information letters on areas of specific interest to KIPs; filing legal complaints against member states (when necessary), and building "grass roots" support and organization.

*Issues*

The key area of interest for UPS is the Postal Commission and the "Post' green paper which has been in the works for three years. Simplifying custom procedures is the key here. UPS also monitors ongoing issues regarding VAT, borders and border controls both within the EC and external outside the EC, and air transport. There is a "truly discriminatory law" on air cargo limits liberalization to European companies only. They also work with express mail users to monitor developments in data interchange and standards. The new upcoming issues are social and environmental. UPS is not very active in these areas; however, over 60% of their operating costs involve labor, and UPS is nonunion in Europe, so monitoring may increase regarding works councils, and so forth. Mostly, however, they leave these nonindustry specific issues to larger employers/firms.

*Influence Style*

The EC is a very open arena; the community is small and accessible, and the style is collaborative, rather than legalistic as in the United States. The commission gives more weight to industry positions than to those of individual firms, so UPS works through associations, and does not lobby member states or politicians.

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# PUBLIC AFFAIRS MANAGEMENT PERFORMANCE:

## AN EMPIRICAL ANALYSIS OF EVALUATION AND MEASUREMENT

USA
~~M10~~ M14
D73

Craig S. Fleisher

> It is ironic that corporate public affairs, a profession rooted in the company's need to cope with uncertainty and hostile forces, is unable to protect itself from external forces and internal pressures that threaten both its current status and its future with instability and uncertainty. (Post, 1987:4)

The evaluation and measurement (E&M) of organizational interactions among stakeholders acting within the public policy environment (PPE) (the sociopolitical or "nonmarket" environment) is important to firms seeking to improve their overall level of sociopolitical performance. Examples abound of firms whose performance ran "afoul" of the expectations of their PPE stakeholders. Several instances were associated with significant short- and longer-term economic and/or reputational damage to the offending firms (e.g., Firestone and its 500 series radial tire, Upjohn and its Halcion sleeping pill, Hydro-Quebec and its James River project). This nature of performance

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outcome is often viewed in terms of deteriorating levels of corporate social performance (Wartick & Cochran, 1985; Wood, 1991).

Managers of corporate public affairs (PA) units have significant organizational responsibility for ensuring that their organizations maintain effective relationships with stakeholders in the PPE. Several empirical studies have been conducted examining the relationship between PA units and effective corporate social performance (see, for example Andrews, 1987; Baysinger and Woodman, 1982; Dickie, 1984; Lusterman, 1987; Miles, 1987; Post, 1987; Sonnenfeld, 1982). Each of these studies provided a unique glimpse into selected aspects of the relationship between PA unit activities and the achievement of various levels of corporate social performance.

With the specific exception of Andrews (1987) research, no empirical studies have specifically focused on E&M aspects of PA management (PAM) unit activities. It should be noted that there have been a couple of studies on the research and/or evaluation practices of public relations (PR) units (Bissland, 1990; Lindenmann, 1990). Lindenmann (1990, p. 3) suggested upon his review of the PR literature on evaluation that an examination of this literature does not give a clear picture of the full extent of how much research is being carried out by PR practitioners, counselors, or academicians across the country.

McGrath's (1976, p. 64) study of corporate external relations management assessed whether PA performance was evaluated and suggested that "external relations does not readily lend itself to measurement." Public Affairs evaluation and measurement activities were described in the classic Boston University (BU-PARG, 1981, p. 98) study of PA units as "one of the most difficult problems facing the field." Post (1987, p. 4), in discussing the results of BU-PARG's 1985 follow-up study of PA, suggested the dominant issue then facing PA professionals was productivity, whereby the PA professional needed to demonstrate that "good value is being given for every dollar invested in PA work."

The lack of a practical conceptual framework for evaluating PAM effectiveness, or for understanding the role of PAM evaluation in organizations inhibits progress in the organizational practice of the function (Nowlan & Shayon, 1984). Furthermore, the dearth of studies on the evaluation and performance measurement of boundary spanning organizational functions in general slows the developmental search for concepts and theories to guide organizational practice and research.

The purpose of this paper's research was to examine the nature and role of the E&M of PAM, and assess how E&M are related to the achievement of organizational effectiveness in the PPE. This examination required the acquisition of new conceptual and empirical insights into the practice of PAM. These insights permitted the deductive development and inductive refinement of a model of PAM E&M. The model relates the PA E&M activity to functional-level effectiveness, and also permitted the generation of testable propositions.

## GAPS IN THE LITERATURE

A thorough analysis and comprehensive review of the literature and scholarship on managing corporate public affairs was conducted. The findings of this review can be found in Fleisher (1992; 1992a) and are not repeated in depth here; however, gaps identified in this literature included the following:

1. The PA literature/scholarship generally fails to differentiate between the outcomes achieved by an organization and those achieved by the PA function. The assumption that the PA function's outputs and outcomes and organizational outcome sin the PPE are equivalent must be challenged.
2. Very little research has focused on evaluating or measuring the type, quantity, or quality of PA activities. Instead, these aspects are commonly viewed as intervening elements in the process of producing certain levels of social or business performance.
3. Causal explanations of the relationship between the PA function and organizational performance in the PPE are largely absent in PA scholarship. This absence is indicative of the lack of conceptual or theoretical frameworks in the PA literature.
4. Attempts to relate PA to various configurations of social or business performance overlook the breadth of mediating and moderating factors within the "black box" between the two constructs, such as processes of integrating PA planning and line management's needs, evaluating the appropriateness of PA implementations activities, and so forth.
5. The literature lacks characterizations of the process of PA evaluation and measurement. It is difficult to determine whether the function achieved acceptable outcomes or not without identifying and understanding the manner by which the function is assessed.
6. The literature does not address the nature and types of feedback that should be analyzed in an evaluation of the PA function. For example, should effectiveness be based primarily in perceptual observations of functional effectiveness, or should it be based on objective data and quantitative measures of the function?
7. External standards (i.e., benchmarks) have not been utilized in research on PAM functional effectiveness. The extant scholarship makes comparisons only on internal perceptions of organizational planning and business or social performance.
8. The existing research largely disregards the level of complexity that actually surrounds the PA function *within* the organization.
9. Most PA studies have omitted developing measures or criterion of effectiveness. Hardly any studies have provided these measures at the multiple levels where PA activities take place (i.e., PA professionals,

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issue or stakeholder-specific PA projects, PA subunits such as government relations, entire PA units, and the entire organization's PA performance).

10. There is little evidence as to why E&M of the PA function is considered to be so troublesome for PA professionals. An identification of the obstacles to satisfactory E&M of the function may provide insights into why the process is so problematic.
11. There is minimal discussion in the PA literature of the benefits or problems associated with E&M. Although many practitioners consider this activity a major challenge, the question remains as to what benefits they expect to acquire by improving the E&M of their function. And,
12. The PA scholarship has not provided useful guidance to managers in developing accountability for their activities to significant performance measures. It is acknowledged that generic PA functions (e.g., anticipation, intelligence gathering) can be related to various abstract criteria (e.g., response capability, credibility, or legitimacy). Public Affairs professionals may find these generic notions difficult to operationalize as they attempt to account for their activities.

## RESEARCH QUESTIONS

This exploratory study was concerned with investigating the "what," "how," and "why" of PA E&M and its relationship to an organization's PPE effectiveness. The research purpose suggested a focus upon the following questions:

1. What is the role of E&M, in the management of corporate public affairs? How is PA currently being evaluated and measured?
2. What are the critical internal and external elements, or contextual factors related to E&M that affect the achievement of PAM effectiveness?
3. What models, methods, criteria, and measures of evaluation can be utilized to examine the critical factors influencing PAM effectiveness? And,
4. How can evaluation be made useful in helping an organization or its subfunctions improve its boundary-spanning management effectiveness?

### PRELIMINARY RESEARCH MODEL

The conceptual model utilized in this research integrates concepts from the literature on PAM, organization theory, and management policy with those

derived from the systems design literature. This integration is based on the idea that organizational systems are inseparable from the management process (Steiner, 1979). As a key function in many organizations, PAM systems are often indelibly integrated into the organizational decision-making system (Andrews, 1987; Fleming, 1980; Marx, 1990).

Existing knowledge about PAM activities can be structured by a framework identifying key elements, variables, and their relationships. It is worthwhile to propose a systems model for this task (Figure 1). A systems perspective suggests one must evaluate the contextual boundaries outside of the focal system (Miles, 1980), the processes (flows) and structures utilized within and by the system (Frederickson, 1983), and the content or outputs of systematic activity as they affect systems or stakeholders outside the focal system (Cleland & King, 1972). Systems concepts have been used by social issues in management scholars to describe interrelations between organizations and stakeholders in the PPE (e.g., DeFillippi, 1982; Preston & Post, 1975; Strand, 1983). Similar to other general systems models, this model identifies relationships among multiple dimensions: (1) context/conditions, (2) inputs, (3) processes/structures, (4) outputs, and (5) outcomes.

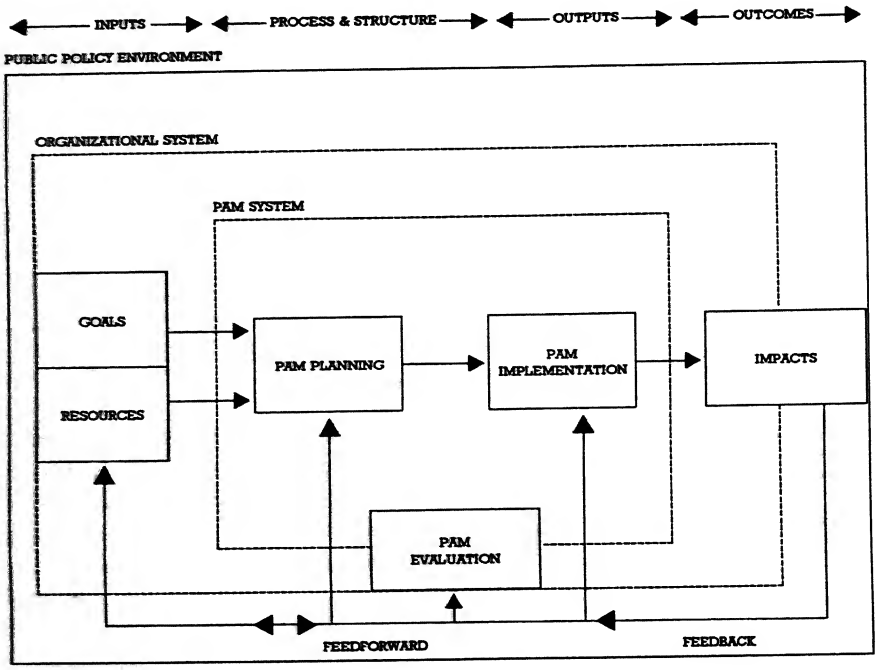



*Figure 1.* A systems Model of Public Affairs Management

*Table 1.* Categorization of "Typical" PAM Activities

| *Category* | *Typical Activities* |
|---|---|
| 1. Community involvement/corporate responsibility | Community relations<br>Philanthrophy/contributions<br>Volunteerism |
| 2. Communications | Consumer affairs<br>Customer relations<br>Employee communications<br>Image/advocacy advertising<br>Investor/shareholder relations<br>Media relations<br>Public relations |
| 3. Environmental affairs | Environmental health/safety programs<br>Environmental resources management |
| 4. Government relations | Federal government relations<br>Local government relations<br>Regulatory affairs/compliance<br>State government relations |
| 5. International PA | Host-country govt. relations<br>Political risk assessment/analysis |
| 6. Issues management | Issues analysis<br>Issues identification/monitoring<br>Issues response |
| 7. Political action | Constituency building<br>Grassroots activities<br>Political Action Committees<br>Political education |
| 8. Strategic PA planning | Counseling management<br>Crisis planning/management<br>Inputs to business planning<br>Sociopolitical monitoring |
| 9. Multiple PA activities | Combinations of the above |

This paper's systems model establishes an exploratory framework in which the E&M of PAM can be better understood. It also highlights the relationships that must be assessed in making a determination of PAM effectiveness. Underlying the model is the assumption that the relationship between evaluation and measurement and effectiveness can be demonstrated in the context of an organizational system. Various approaches to organizational effectiveness, such as the goal, systems resource, stakeholder, and internal process approaches (Cameron, 1986), relate to this view of the organizational system and its characterization of inputs, transformations, and outputs (Daft & Steers, 1986).

## RESEARCH METHODS

A disappointing facet of most previous studies of corporate PA is an absence of formal definitions of what constitutes "public affairs." Studies have commonly defined public affairs by referencing a set of activities performed by organizations under the banner of "public affairs." For purposes of providing linkage to the set of studies previously conducted in the PA area, Table 1 (Fleisher and Hoewing, 1992) demonstrates the range and type of activities that can reasonably be performed under the nomological umbrella termed PA.

PA practitioners frequently note that PA means different things to different people in different organizations, industries, and geographic locales. Without a commonly shared understanding of what is meant by "public affairs," the term is ultimately defined by study participants without the researcher or reading audience comprehending how the participants truly define the term. This state of affairs inhibits the accumulation of a base of knowledge in the area, limits generalizability within independent studies, and prevents comparability among studies. This research addresses this concern by proposing a definition which goes beyond the singular specification of a set of activities for the population being studied.

The population being researched in this study was defined as "those publicly-held firms which operate a formally established public affairs management (PAM) unit at the corporate or business level in the United States." For the purposes of this study, a formally defined PAM unit met the following criteria:

1. The unit performs and is responsible for planning and guiding organizational responses toward stakeholders and/or issues in the PPE. And,
2. The unit consists of a professional staff of at least one management level (i.e., manager, director, vice president, or above) professional who is designated with *and* claims organizational responsibility for government relations and/or any two other PA-related activities, as shown in Table 1.

A third criterion, that the manager spend a majority of their time on his/her PAM activities would have also been beneficial and is recommended for future research efforts; however, it was not targeted in this research.

This paper's study consisted of two empirical research phases performed after a comprehensive literature review. These are discussed in the following sections.

### Empirical Phase 1

The first research phase involved semistructured interviews of 18 elite respondents. Elite interviewing is a specialized treatment of interviewing that

focuses on a particular type of respondent (Marshall & Rossman, 1990). In this research, elite respondents were chosen based upon Pettigrew's (1990) criterion for key informants, those with a lead position in the situation under analysis (i.e., senior managers in PAM units) and those who are significantly affected by the topic of study (i.e., PAM evaluation). Diligent efforts were made to increase sample variation across differentiating criteria used in previous PA scholarship, such as unit location, industry type, and functional expertise.

The selection of "elites" was facilitated by the efforts of the president of the U.S. Public Affairs Council and of the executive director of the Foundation for Public Affairs in Washington, DC. These individuals are widely recognized as experts in the field of public affairs and regularly network with PA professionals. A list of 20 individuals in three central U.S. locations (i.e., Philadelphia, Chicago, and Minneapolis-St. Paul) was generated and all prospects were contacted. All but two of the prospects agreed to be interviewed (a response rate of 90%) and time slots were arranged. The titles and positions of the interviewees are identified in Table 2.

Several steps recommended in the literature were followed to increase the reliability and accuracy of data collection associated with the interviews. Processes taken included:

1. Thorough interviewer familiarization of the interview protocol and question schedule prior to each interview. This reduced the burden on respondents and time needed to conduct the interview (Babbie, 1990).
2. Interview questions were followed exactly as worded in the advance materials sent to the interviewees.
3. Respondent's answers were recorded exactly as given.
4. Handwritten notes were input into a word processing package, and the accuracy of transformation was verified by a third party.
5. Probing of answers was conducted in neutral terms (e.g., "please tell me more about that...").
6. Informants were encouraged to discuss specific examples, cases, or events with which they were familiar, thereby utilizing their ability to recall contexts (Weisberg, Krosnick & Bowen, 1989). And,
7. Candid responses were encouraged through the advance promise of confidentiality in any publication of results.

The qualitative data generated by responses to the interview questions was examined using Miles and Huberman's (1984) data analysis methodology. They describe the analytical process in an interactive model involving data collection, data reduction, data display, and drawing/verifying conclusions.

Data reduction involved the choice, simplification, and transformation of "raw" interview data into a form useful for analysis. This was facilitated in this research through the development of interview transcript summary sheets.

*Table 2.* Job Titles, Industry Backgrounds-Phase 1

| *Industry Type* | *Title and Position* |
|---|---|
| Accounting | Managing partner, world government affairs |
| Aerospace | Manager, public affairs |
| Chemicals | Director, government relations |
| Chemicals | Resources manager, public affairs |
| Consumer products | Vice president, corporate affairs |
| Diversified energy | Vice president, public and government affairs |
| Diversified industrial | Vice president, public affairs |
| Electric utility | Vice president, public affairs |
| Food products | Vice president, public affairs |
| Industrial machinery | Vice president, public affairs |
| Insurance | Vice president, corporate relations |
| Paper and packaging | Senior manager, environmental affairs |
| Petroleum refining | Vice president, public affairs |
| Professional association | President |
| Professional foundation | Executive director |
| Real Estate development | Vice president, administrative and external affairs |
| Telecommunications | Executive director, external affairs |
| Transportation | Vice president, public affairs |

Data display involves assembling the data into various organized structures. Data were organized into tables and matrices and respondents were compared across distinguishing factors (e.g., response to types of evaluation tools as given by government relations versus communications-oriented respondents).

A keyword coding procedure of a descriptive nature was used to facilitate impression aggregation (Miles & Huberman, 1984). In this procedure, text was coded by two raters according to the variables within the preliminary systems model. Interrater reliability of the coding was measured. A satisfactory 71% level of reliability was achieved. This level may have been improved if the rater had been versed in systems terminology.

The results of the data display stage were developed into case-summary vignettes. These have been found useful in other exploratory studies of PA (Bhambri & Sonnenfeld, 1988; Sonnenfeld, 1982). Conclusion drawing and verification was performed using multiple techniques recommended to increase the reliability and validity of qualitative analysis (Miles & Huberman, 1984; Yin, 1989). These procedures included checking for representatives, examining for researcher effects, triangulation, contrast making, weighing the evidence, checking the meaning of outliers, and getting feedback from informants.

## Empirical Phase 2

This phase of the research involved the use of a comprehensive questionnaire for surveying the population. The general approach to survey design was

*Table 3.* Survey Response Characteristics

Survey population: 1,549 formal PAM units in the U.S.
Effective population: 1,487 formal PAM units in the U.S. *

| | *First mailing* | *Follow up Mailing* | *Total* |
|---|---|---|---|
| Usable | 110 | 315 | 425 |
| Unable to participate | 65 | 110 | 175 |
| No PA function | 20 | 42 | 62 |
| Written policy with respect to surveys | 9 | 22 | 31 |
| No time to participate | 5 | 8 | 13 |
| Other/unknown | 31 | 38 | 69 |
| Subtotal | 175 | 425 | 600 |
| Overall Response ** | 11.7% | 28.6% | 40.3% |
| Usable Response ** | 7.4% | 21.2% | 28.6% |

*Notes:* * Some respondents stated they had no formal PA unit.
** Calculated as a percentage of 1,487.

predominantly based upon Dillman's (1978) Total Design Method, which is focused upon achieving high response rates. Two pretests were conducted of the instrument. The second pretest resulted in a satisfactory response rate of 41.6%.

The population of 1,549 PAM units was first contacted during September 1991. Each PAM unit received two mailings of surveys. Two hundred randomly chosen nonrespondents after Phase 1 were contacted by telephone. The overall response rate to the survey was 38.7% (i.e., $n = 600$), of which 27.4% (i.e., 425) were fully completed. Various checks for nonresponse biases were conducted. Based on these analyses, it was determined that there were no significant differences between the respondent characteristics in this sample from those of the population. Table 3 lists survey response characteristics.

Data analysis in Phase 2 was conducted in several steps. The first step was the compilation of frequency distributions across the 164 variables included in the instrument. Descriptive statistics and cross-group comparisons, including the development of the appropriate chi-square or *F*-statistics followed. The next steps involved the development of cross-tabulation tables, Tukey-B multiple range statistical tests for comparing variable means, ANOVA, and principal components factor analysis with varimax rotation. The decision to use all these techniques was based on the identification of significant conceptual relationships uncovered in the frequency and cross-tabulations analyses performed in prior steps. The outputs of these analyses are discussed in the data summary and results section.

## DATA SUMMARY AND RESULTS

The Phase 2 survey generated data on 164 variables chosen after the literature review, interviews, and pretests. The following highlights some of the research's most important findings. These findings were specifically related to E&M contexts, processes, systems/structures, and outcomes.

### Industry, Unit, and Respondent Demography

The industry background of respondents was analyzed. PAM units in manufacturing firms dominated the survey (38%), while PAM units in utility firms accounted for another 17% of the response. All other specific industry categories, including banking (6%), retailing (5%), transportation (5%), insurance, diversified financial, diversified service (4% each) accounted for less than 6% of the total response. Seventeen percent of the respondents claimed their organizations were a part of an "other" category. These percentages were nearly identical with distributions of respondents as printed in the 1991 edition of the *National Directory of Corporate Public Affairs* (Close & Gregg, 1991) and were suggestive of the absence of an industry-based response bias.

With respect to the respondent's subfunctional responsibilities, over 70% had significant responsibilities in government relations (78.4%), community relations (75.5%), political action (72.7%), issues management (70.8%), while nearly 70% performed communications or media relations roles (69.4%). More than half of the respondents had strategic PA planning responsibilities (51.5%), while environmental affairs (27.1%) and international PA responsibilities (27.3%) were maintained by less than a third of the respondents. Each of these functional distributions was within 5% of the distribution garnered in the Foundation for Public Affairs (1992) survey of 163 PA respondents.

It should be recognized that this activity listing is not necessarily inclusive of every possible activity that may be performed by a PAM unit. This list was an attempt to capture those activities most likely to be performed by a contemporary U.S.-based PAM unit. In some cases, other unlisted activities may fall within a PAM portfolio domain. Also, some of the activities on the list may be performed by the organization in an area outside of PA. This may partially explain the relatively low percentage of respondents performing environmental affairs or international PA tasks. This observation should also serve as a caution to researchers basing sampling decisions on activity-based definitions of PA.

A description of the respondent's job titles and their area(s) of responsibility was generated. Forty-two percent of the respondents were vice presidents (VPs), 30% were directors, 17% were managers, and the remainder were assistant/senior VPs or officers. Another question was posed with respect to the title of the person to whom the respondent reported. Every effort was made

in this research to access the highest ranked PAM official in each unit. Nearly 60% of the respondents reported to a CEO, president, executive, or senior VP. This distribution is again comparable with the Foundation for Public Affairs (1992) survey.

With respect to years of PAM experience, the survey's respondents averaged 12.25 years ($SD = 7.5$, $n = 418$). In terms of educational backgrounds, 52.3% had earned a bachelors degree, 31.6% earned a master's degree, and 10% earned a JD. With respect to the undergraduate majors of the respondents, 26.2% studied communications/journalism, 24.1% were in business administration, 18.2% studied liberal arts, and 17.9% degreed in political science or government studies.

As for the PAM units themselves, the mean number of years the respondent's employer had a formal PA unit was 21.7 ($SD = 16.6$, $n = 381$). Nearly 76% of the respondents were in units which had 10 or less professional staff members, while 14.2% of units range from 11 to 25 members. The largest units had over 250 members. The mean staff size in this survey was 10 exempt personnel (mean = 9.95, $SD = .89$, $n = 416$). The mean number of nonexempt personnel per unit was 5 (SD = 12.2, n = 412).

## Contextual Factors

### *Time Allocated to PA Evaluation*

The respondents of 49 firms (11.5%) said they spent no time deliberately performing E&M activities. The remaining firms spent an average of 10.8% of their total unit's time (which includes "putting out fires," managing present programs, planning for the future) performing either formal or informal evaluation of their current projects, programs, or subfunctions. However, when asked what would be an optimal amount of time spent in E&M, respondents indicated they desired to allocate 14.8% to these activities.

### *Extent of Communications between PAM and its Stakeholders*

The survey examined the frequency of communication between the respondent's units and its relevant stakeholders. PAM managers communicated with top management most frequently, followed in order by politicians/government officials, other staff members, line managers, interest group members, and other employees.

### *Allocation of Time Among PA Activities*

Respondents were asked to allocate their total working time among four key activity modes (i.e., those described in the section on "time allocated to PA evaluation" above). The respondents ($n = 418$) averaged spending 35%

of their time (rounded to the nearest percent) putting out fires, 40% managing present programs, 11% evaluating programs, and 14% planning for the future. However, in terms of what they would optimally like to be doing with their working time, respondents said they would rather spend an average of 19% of their time putting our fires, 44% of their time managing present programs, 15% evaluating programs, and 22% of their time planning for the future.

### *Key Problems and Issues Faced by PAM Units*

The survey addressed various problems and issues often claimed by PA professionals as impacting their achievement of various levels of effectiveness. Respondents were asked to rate their degree of agreement with statements reflecting these issues. Respondents were strongest in their agreement on the following statements:

1. Evaluation becomes important only when the firm's financial condition worsens.
2. PPE issues are tougher to manage than internal or operational issues.
3. Quality management techniques are becoming more important.
4. Operating managers do not fully understand what PAM entails. And,
5. PAM is understaffed.

Respondents were strongest in their *disagreement* to the following statements:

1. Recent top management changes have created difficulties for PA.
2. Top managers are unaware of PA capabilities.
3. PA output is under-utilized by top management.
4. Top management is too cost conscious. And,
5. Top management personnel do not understand what PA entails.

## Input Factors

### *Obstacles to PAM Evaluation*

Respondents were asked to assess to what extent they had difficulty with various obstacles often mentioned as explanations why evaluation of PAM was not performed more formally or frequently. The obstacles creating the greatest difficult for the respondents with respect to evaluation were:

1. Conducting a scientific evaluation of the PAM unit
2. Quantifying PAM's effect on the organization's bottom line
3. Defining specific standards for measurement

4. Inability to assess PAM's effect on the bottom line (even in nonquantified formats), And
5. Designing systems for evaluation.

## Process/Structural Factors

### *Linking of PA and Organizational Missions*

Survey recipients were asked whether they had a written PA mission statement which was explicitly linked to corporate goals. Of the 420 respondents who answered this question, 68.6% ($n = 288$) said they had a linked mission, 30.2% ($n = 127$) said they did not, and the remaining 1.2% were unsure. Further research into the 30.2% units with unlinked missions should be conducted to establish if these units even have a written mission.

### *Formal and Informal Goal Setting*

In terms of formal, goal-setting processes, 63.7% of 421 respondents said they had formal, goal-setting processes which were updated on at least an annual basis. Less than 10% of the respondents made up the other categories, including performing formal goal setting more frequently than once a year (8.6%), less frequently than an annual basis (4.7%), no established E&M pattern (9.5%), or E&M on a per-program basis (6.9%). Twenty six units did no formal goal setting (6.2%), while 2 respondents were unsure.

### *Evaluation Techniques*

The survey also assessed how frequently respondents utilized various popular analytical techniques for evaluating the performance of their units. The five most frequently utilized approaches were:

1. Analysis of results compared to objectives.
2. Budget analysis.
3. Performance measures.
4. Tracking PA costs. And,
5. Reputational approach (external attitude surveys).

The five least frequently utilized analytical evaluation techniques included:

1. Effectiveness indices.
2. PA audits.
3. Process-oriented/Efficiency-based measures.
4. Number of "hits and misses." And,
5. Internal attitude surveys.

*Form of Measures*

The survey also sought information with respect to the form of measures (i.e., quantitative, qualitative, combinations) they used most frequently. In terms of the frequency of utilization, qualitative measures were used most often (mean = 42.5%, SD = 28.8, $n$ = 383), a combination of quantitative and qualitative measures were used next most frequently (mean = 34.2%, SD = 31.1), and quantitative measures (mean = 23.3%, SD = 18.9) were used least frequently.

In terms of the level of value added by the different measurement types, qualitative measures were rated most valuable by 54.5% of the respondents, followed by combination measures. Quantitative measures were considered to be the least valuable and were ranked last by 47% of the respondents.

*Responsibility for Evaluation*

With respect to what individuals had ultimate responsibility for actually performing PAM evaluations, a member of top management had this responsibility for 59.4% of the units, while the unit's top Public Affairs Officer had it for 33.1% of the respondents. The remaining 7.5% of the respondents had their evaluations conducted either by another PA staff member, line manager, or external auditor. It should be noted that there may be overlap between the senior PAO and top management personnel, as the senior PAO could certainly be a member of an organization's top management group.

*Evaluation Levels and Frequency*

Table 4 displays five levels at which PA evaluation may potentially occur. These five levels include the evaluation of individual PAM professionals, specific PAM projects, specific PAM subfunctions, overall PAM area, and/or overall organizational effectiveness in the PPE. It is important to note that evaluation is carried out most frequently at the level of individual PAM practitioners which is also where evaluation is most formalized and regularly scheduled. Nearly 20% of the respondents say the do not perform any evaluations of the organization's performance in the PPE.

## Outputs/Impact Factors

*Benefits of PAM Evaluation*

Respondents were asked to rank order the benefits that their organizations achieved from PAM evaluation. The five categories of benefits which received the highest frequency of mention were:

*Table 4.* Type of Evaluation Performed at Five Levels

| *Level* | *Type* [1] | *Frequency* | *Percentage* |
|---|---|---|---|
| Individual PAM professionals | F = 69% | Annual | = 71 |
| | I = 26 | < Annual | = 1 |
| | N = 5 | > Annual | = 25 |
| | | Other Basis | = 3 |
| Specific PAM projects | F = 33% | Annual | = 17 |
| | I = 61 | > Annual | = 34 |
| | N = 6 | Per Program | = 45 |
| | | Other Basis | = 4 |
| Specific PAM function | F = 41% | Annual | = 48 |
| | I = 47 | > Annual | = 28 |
| | N = 12 | Per Program | = 18 |
| | | Other Basis | = 6 |
| Overall PAM Function | F = 46% | Annual | = 66 |
| | I = 41 | > Annual | = 19 |
| | N = 13 | Other Basis | = 15 |
| Overall organizational effectiveness | F = 31% | Annual | = 55 |
| | I = 50 | > Annual | = 20 |
| | N = 19 | Per program | = 15 |
| | | Other Basis | = 9 |

*Note:* [1] F = formal, I = informal, N = none

1. Assuring that PAM was meeting the organization's intermediate and long-range goals (65% of $n = 425$ rated it among the top three benefits).
2. Assessing the external impact of the organization's PAM programs (58.6%).
3. Assessing the impact of PAM activities on the organization (46.9%).
4. Using evaluation information to plan long-term strategies (31.8%).
5. Determining improved utilization of PAM resources (30.1%).

### *Benchmarks*

In order to assess whether respondents evaluated PA units other than their own, they were asked to specifically name two companies considered to have the "most effective PA units." In order to gauge the respondent's meaning of effectiveness, they were also asked to list the criteria they used in making their assessment.

Over half of the respondents named a company which they perceived to be most effective in the PPE, while another 41% named a second company. Certain companies were commonly named. The top five industry groups in which companies were most frequently cited is shown in Table 5. The specific

*Table 5.* The Five Industries Most Frequently Cited as Having Companies with the Most Effective PAM Functions (in alphabetical order)

| |
|---|
| Aerospace |
| Chemicals |
| Energy-related (i.e., petroleum refining) |
| Food/Beverages |
| Pharmaceuticals |

*Table 6.* Most Frequently Utilized Criteria for Describing Companies with Most Effective PA Units (Top 10 ranked in order of frequency of citation)

| | |
|---|---|
| (1) | Support of top management |
| (2) | Reputation/image/praise from external stakeholders |
| (3) | Sheer amount of PA resources |
| (4) | Clearly defined objectives/strong sense of mission |
| (5) | Willingness to take tough positions/stakes out tough issues |
| (6) | Talented PA personnel/professionalism of staff |
| (7) | Past successes/history/track record/results |
| (8) | Communications openness/clarity/quality |
| (9) | Operates in public interest/credibility with public |
| (10) | High sense of ethics/integrity/respect for stakeholders |
| (11-20) * | Breadth of PA coverage |
| | Efficiency of PA action |
| | Gets resources for PA |
| | Market driven/turns PA into profits |
| | Relationships with external stakeholders |
| | Support line management/employees |
| | Thoroughness/consistency |
| | Turns difficulties or crises into positives |
| | Visibility/access to/responsiveness to stakeholders |
| | Willingness to commit resources |

*Note:* * In alphabetical order.

criteria most frequently mentioned are shown in Table 6. Specific criteria are not associated with companies in this analysis for confidentiality reasons (i.e., respondents were promised name and organizational confidentiality for agreeing to respond to the survey).

### *Open-ended Comments and Responses*

Respondents to the survey were given multiple opportunities to provide written comments on the questionnaire. Nearly half of the respondents provided written comments. Several issues stood out in terms of frequency and emphasis. These issues are categorized and briefly summarized in Table 7.

*Table 7.* Concerns Mentioned Most Frequently in Open-ended Responses (listed in order of frequency of mention)

| | |
|---|---|
| (1) | The level of communications between PA and senior managers. |
| (2) | The degree to which PA is strategically linked into the firm's focus, structure, and processes. |
| (3) | The structure and organization of the PA unit itself. |
| (4) | The degree of evolution in the roles and/or approaches taken by PA. |
| (5) | Effects of organizational changes on PA. |
| (6) | Incompetence among PA professionals. |
| (7) | Strategic philosophy of PA unit. |
| (8) | Nature of evaluation and/or measurement systems. |
| (9) | Use of inside and outside expertise. |
| (10) | Nature of the task environment. |

## DISCUSSION AND CONCLUSIONS

Results from the Phase 1 interviews revealed that there were three evaluation archetypes which characterized the way PAM was evaluated. These three archetypes were distinguished primarily based on three factors:

1. *The nature of PA evaluation policies/systems.* Evaluation in this dimension ranged from those units in which no evaluation policies or systems existed to those with highly formalized systems.
2. *The nature of their evaluation methods.* The methods ranged from essentially intuitive to mostly analytical. And,
3. *The nature of information utilized.* The type of information ranged from mostly objective to mostly subjective.

The resulting archetypal groups are displayed in Table 8.

### Evaluation Approach Matrix

Research question 1 asked for a description of how PAM is currently performing E&M. This question and question 3 were addressed via the development of a matrix combining the three evaluation archetypes with the four types of effectiveness targets commonly pursued by organizations (i.e., effectiveness in its relationships with stakeholders, goal effectiveness, utility-based effectiveness, or systems quality effectiveness). This combination resulted in a 12-celled matrix (Figure 2). A detailed discussion of the qualities of PAM units at each cell intersection can be found in Fleisher, 1992.

### Model Refinement

The preliminary systems model deductively generated was inductively refined as a result of the data generated and analyzed in Phase 2. Further

*Table 8.* Evaluation Archetypes

| *Evaluation Archetype* | *Nature of Evaluation Policies/Systems* | *Nature of Evaluatlion Methods* | *Nature of Information* |
|---|---|---|---|
| Group 1 (NE) | Nonexistent | Intuitive | Mixed |
| Group 2 (FAO) | Formal | Analytical | Objective |
| Group 3 (IIS) | Informal | Mostly intuitive | Subjective |

| FORMALITY \ TARGET | Stakeholders | Goals | Utility | Systems Quality |
|---|---|---|---|---|
| No Evaluation (NE) | (1) | (2) | (3) | (4) |
| Formal Analytical Objective (FAO) | (5) | (6) | (7) | (8) |
| Informal Intuitive Subjective (IIS) | (9) | (10) | (11) | (12) |

*Figure 2.* Evaluation Approach Matrix

analysis relied upon variable reduction through factor analyses and Tukey-B multiple range comparison tests of several conceptually similar sets of variables. Three clusters of factors were shown to be associated with PAM evaluation as it related to organizational effectiveness in the PPE.

Cluster one included five variables directly associated with E&M processes. It was concluded that PA management E&M has a more significant role in helping an organization achieve effectiveness in its relationships in the PPE when:

1. Senior management encourages PA unit evaluation.
2. Systems and standards exist for measuring performance.
3. Efforts are made by managers to understand causal relations between PAM unit actions and organizational impacts in the PPE.
4. M&E expertise exists within the PAM unit. And,
5. Adverse interfunctional behavior resulting from the internal communication of evaluation results is relatively absent.

Cluster two produced two variables associated with managerial behavior in the PPE. These included the number of PPE pressures facing the firm and the intensity of PPE pressures facing the firm. Cluster three produced three variables associated with managerial behavior toward the PAM subsystem. Three variables were shown to be significant:

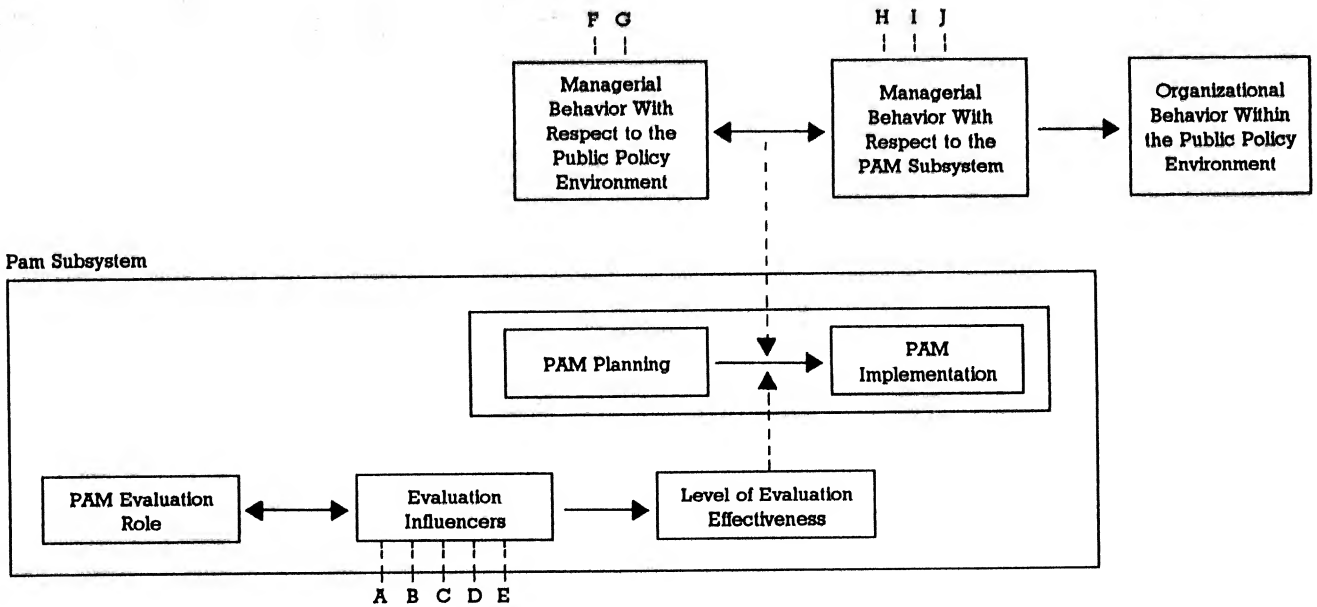
1. The degree of integration of business and PAM planning.
2. Managerial openness and receptivity to PAM. And,
3. Internal organization changes affecting PAM.

The clusters identified allowed for the inductive refinement of the preliminary model. The systems relationship between these factors is graphically demonstrated in Figure 3. Numerous propositions were offered associated with this refined model and are detailed elsewhere (see Fleisher, 1992).

## Measure Development Systems

This study was focused on gaining a greater understanding of how firms evaluate *and* measure their activities. The discussion thus far has more thoroughly targeted evaluation. This section describes the development of measurement systems, based on the original model and the open-ended survey responses, enabling an encompassing categorization of measures used in PA. Dimensions utilized in developing measurement systems are shown in Table 9.

The system includes multiple dimensions from which to create systematic measurement systems. The following discussion highlights the many




Legend:

*Evaluation influencers*

A: Level of support provided by top management for PAM evaluation
B: Extent of efforts made to understand causality between PAM and the external environment
C: Existence of systems/standards for PAM measurement
D: Presence of evaluation and measurement expertise
E: Level of adverse interfunctional behavior with respect to performing PAM evaluation

*Managerial behavior with respect to the public policy environment*

F: Number of PPE pressures facing the firm
G: Intensity of PPE pressures facing the firm

*Managerial behavior with respect to the PAM subsystem*

H: Integration of PAM and business planning
I: Managerial openness and receptivity to PAM
J: Internal organizational changes affecting PAM

*Figure 3.* Revised Research Model

*Table 9.* Some Dimensions for Developing Measurement Systems

| *Dimension* | *Facet* |
|---|---|
| Focal level | Professionals<br>Projects<br>Specific PAM functions<br>Overall PAM function<br>Organizational PAM |
| Systemic position | Inputs<br>Process/structure<br>Outputs<br>Outcomes/impacts |
| Nature of feedback/feedforward | Strategic-level control<br>Management-level control<br>Operational-level control |
| Benchmark | Intraorganizational comparisons<br>Intra-industry comparisons<br>Best-in-class comparisons |
| Technique | Quantitative methods<br>Qualitative methods<br>Mixed-type methods |

dimensions suggested by which this study which can be combined in various fashions to guide PAM performance measurement. The dimension possibilities include but are not limited to:

1. *Focal Level* focuses the performance analysis on five separate categories. The categories represent a hierarchical arrangement of the elements composing PA in an organization.
2. *Nature of FB/FF* reflects the content of the measure being used in terms of providing strategic, management, or operational-level control information.
3. *Benchmark* suggests that an assessment can be made with respect to other intraorganizational PA units (i.e., a comparison made between two similarly constituted PAM units in one organization), between PA units in companies within an industry (i.e., between chemical firm A's PAM function and chemical firm B's), and between a focal PA unit and a best-in-class PAM unit in another company in any industry.
4. *Systemic Position* focuses the evaluation on a particular position within the PAM system as conceptualized in the original research model.

5. *Technique* includes those qualitative and quantitative methods for guiding the analysis of PAM performance data.

An example in using the system may be helpful. General Chemicals Inc. (GenChem) may wish to evaluate its PR subunit and organizational performance (i.e., the third and fifth focal levels) by applying content analysis in terms of how many published articles (a quantitative measure split into favorable, unfavorable, and neutral qualitative categories) were written about the company (i.e., an output measure of systemic position) on a particular public policy issue over a specified time period. An assessment may also be made by determining how many articles were written about Standard Chemical Inc. (StanChem) under similar circumstances. A ratio of outputs (i.e., the number of actual print "hits") to inputs (i.e., the number of PR unit man-hours devoted to generating print media contacts on the issue) can be developed for comparison between the firms.

This example would generate a measure of PR productivity. For example, the analysis would show that over six months, GenChem had 110 articles stating its position, 85% were favorable, 10% neutral, and 5% unfavorable. These outputs and outcomes were generated with 60 PR man-hours. StanChem's position was mentioned in 60 articles, 45% favorable, 40% unfavorable, and 15% neutral. StanChem used approximately 75 man-hours to generate these outputs and outcomes. This analysis would indicate that GenChem's productivity and performance were clearly superior to StanChem's on this particular issue. Further analysis should be made of each organization's functional practices to determine what factors led to this result. The applications of this system are difficult to exhaust and are limited only by the evaluator's ingenuity.

## SUMMARY

The refined model developed in this research demonstrates that managerial behaviors and decisions are directly affected by PPE forces and the influence of the PAM unit. The result of managerial behaviors and decisions, combined with the effects made on these by the PAM subsystem, lead the organization to exhibit certain behaviors in the PPE. Whether these behaviors are effective or not is dependent on how the organization views its relationships in the PPE, which is reflected by the approach it takes in evaluating PAM.

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# PART III

## PERSPECTIVES ON THE MODERN CORPORATION

# EUROPEAN STRATEGIC ENVIRONMENTAL MANAGEMENT:

## TOWARD A GLOBAL MODEL OF BUSINESS ENVIRONMENTALISM

Europe
M14
Q20

Mark Starik and Chandra Gribbon

*We have wasted two critical decades. If we miss this chance, we face unprecedented peril. The processes of environmental abuse are as destructive as nuclear war and far less easy to avert–for they are already well advanced and gaining momentum. A gigantic task looms ahead.*

—Mustafa K. Tolba, Executive Director,
United Nations Environment Programme, 1990
(*UNEP Profile,* 1990, p. 1)

## INTRODUCTION

The fields of organization management, strategic management, international business, and business and society have generally adopted broad perspectives of organizational activities compared to other business disciplines. Each of

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these fields, which have contributed to the corporate social performance concept, share a concern with the organization/environment interface. However, literature in these fields has included scant attention to the one environment that is the most pervasive, ubiquitous, and vital phenomena that continuously affects and is affected by this interface—the natural or ecological environment. This ever-present and all-encompassing environment—Earth's hydrosphere, atmosphere, lithosphere, and biospheric living populations and systems—could be considered the most important organizational environment with which we need to be concerned, since it plays a major role in every other kind of environment. To cite just a few of the more obvious examples: economic environments are affected by the availability and quality of natural resources; social environments are affected by the natural barriers to human activity and by opportunities for human food, water, energy, and shelter acquisition; technological environments are affected by the quality, quantity, type, and location of raw materials and their potential combinations, and by the accumulated impacts of natural substances and forces on technological hardware. Political environments are influenced by ecological organizations, including Green Parties and movements, and by environmentally related organizational policies and practices.

Among other goals, this paper will highlight, compare, and extend the works of the few researchers in these fields who have, at minimum, included several examples of the natural environment in their respective articles and papers. The main point of this article, however, is to develop ideas about global business environmentalism by using the works of these authors, as well as those of other academics and practitioners who have addressed this issue outside the mainstreams of these fields. In addition, we derive a global business environmentalism model, labeled the Human Organization Environmental Performance (HOEP) model, using European organizations and situations to illustrate concepts within it. In this paper, we use the terms "business environmentalism" and "environmental management" synonymously to mean "the integration of the environmental dimension into an organization's management structure, decision-making processes, feedback procedures, and control and correction loops" (International Network for Environmental Management, 1991). A European focus was selected for this paper, in part, because using these examples can serve to broaden the perspectives of business-environmentalism researchers toward a viewpoint that is at least multinational, if not global. This broader approach appears necessary for scholarly appreciation of the truly planetary nature of environmental challenges to which businesses and societies apparently need to respond significantly, now and in the near future.

# THE NEED FOR A MORE INTERNATIONAL MODEL OF BUSINESS ENVIRONMENTALISM

## The United States Orientation of Current Business Environmentalism Models

Evidence that the orientations of most researchers of business environmentalism currently are heavily United States oriented appears overwhelming. In addition to the distinctly U.S. authorship of the few academic and practitioner articles that currently have been written on the topic in the English language, most of the references to organizations that have been identified as either good exemplars or bad actors have centered on American organizations. While a few examples of non-United States business environmentalism do exist, most of the research and writing in this area, the highlights of which are briefly reviewed below, have a definite United States (or U.S.-Canadian) orientation.

Current business environmentalism models can be categorized into three groups: component, direction/degree, and combination. Component models have focused on various organizational entities (hierarchical levels, organizational functions, and external/internal interfaces) and their relationship to business environmentalism; direction/degree models have provided labels for describing organizational orientations toward business environmentalism; and, combination models have utilized both components and orientations to develop a more comprehensive view of business environmentalism. Regardless of the model type business environmentalism scholarship has developed a decidedly United States orientation.

### *Component Models*

Marcus and Rands (1990) in several briefing papers which culminated in the casebook *Managing Environmental Issues* (Buchholz, Marcus, & Post, 1991), identified business functions that might be affected by the most recent increase in the natural environment orientations of businesses and societies, utilizing a plethora of examples; all but one of which were U.S.-based. The authors adeptly illustrated how a holistic, that is, cross-functional, approach to business environmentalism appeared to be an emerging reality for many large firms in numerous economic sectors, but the researchers' use of predominantly United States illustrations could be seen as potentially and unintentionally limiting the application of the authors' ideas to but one country or culture.

Starik and Carroll (1991) employed the McKinsey 7S model of organizational effectiveness to business environmentalism in developing their "strategic environmental management" (SEM) model. Once again, most of the evidence presented to support the argument that organizational components,

such as superordinate goals, strategy, and structure, were important for assessing the environmental sensitivity of firms, was U.S. based. While several references were made to European and Japanese SEM organizations, the predominant U.S. bias was obvious.

The same can be said about a forthcoming work by Throop, Starik, and Rands (1993) that sets out another classification scheme describing various business environmentalism strategies, such as cooperation, conservation, and the use of renewable resource technologies, once again relying primarily on United States examples. This paper almost exclusively employs U.S. and Canadian electric utilities in general, and Southern California Edison in particular, as its database.

*Direction/Degree Models*

Mathews (1991), the former vice president of World Resources Institute (WRI), an organization that perceives itself as a globally-oriented, sustainable development promoter, approached business environmentalism from a corporate, social responsiveness perspective, but also predominantly from a U.S. viewpoint. This researcher forwarded four levels of business environmentalism:

- Exploit the green fad while it lasts;
- environmentalism can sometimes be good business;
- environmentalism is here to stay; and, finally;
- the environment is a strategic business opportunity.

While this categorization appears intuitively appealing, practically based, and potentially helpful as a starting point for assessing an organization's environmental orientation at any given time, nearly every illustration was U.S. based, including attention to United States fishermen and the American issue of dolphin-safe nets, U.S. environmental groups' Valdez Principles, and the United States Environmental Protection Agency's Green Lights Program. Smart (1992), a colleague of Mathews' at WRI, recently published a book that catalogs best exemplars in business environmentalism and which includes only North American (primarily U.S.) examples, "(b)ecause North America is the largest per capita user of environmental resources" (p. 8).

Post and Altman (1991) studied three firms, all U.S. based, and drew on predominantly United States-conducted environmental management research to develop their three-stage model of "corporate environmentalism," which included adjustment, adaptation, and innovation. In addition to this new "learning" and development perspective, to their credit, two of the three companies these researchers selected did conduct some operations outside the United States. Also, an earlier article by the first author (Post, 1991) did employ

several non-United States examples in his suggestion that businesses around the world need to begin "Managing as if the Earth Mattered."

*Combination Models*

Hunt and Auster (1990) combined their environmental responsiveness orientations (beginner, fire fighter, concerned citizen, pragmatist, and proactivist) with a holistic, multicomponent environmental management perspective using, once again, primarily U.S. examples of both companies (e.g., Union Carbide and Exxon) and regulatory entities (e.g., CERCLA and RCRA). For example, to explain one element of their proactivist approach, the authors stated "(s)tage five (proactivist) firms are also active in Washington, D.C., in state capitols, and in local communities" (p. 12).

Logsden (1985) utilized a dichotomous social responsiveness variable—resisting or accepting—in her study of the varying responses of United States based (or U.S. operating) oil companies to U.S. environmental issues and regulations. She categorized these responses by analyzing the components of company management statements, structural actions, technical actions, and political/legal actions. Getz (1991) used Gricar's (1983) typology of technical, informational, administrative, and (political) environmental management responses and Logsden's resisting/accepting orientations to identify differences in chlorofluorocarbon manufacturing firm responses before and during the Montreal Protocol international negotiations. Because players such as DuPont, Allied Signal, AT&T, and the United States Government were involved, the United States dominance in this study was significant, if unavoidable.

## The Potential Problems of Current U.S.-based Models

While the reasons may vary for this apparent United States (or U.S.-Canadian) bias in environmental management research, (e.g., that the United States is the home country of most of the authors, the headquarters of most of the multinational companies involved, and the political/legal domain of the United States Government) the point here is that U.S. models of business environmentalism may be inadequate. First, cultural biases may exist in the formulation and application of these models, such that United States "low-context" or rationalist-materialist approaches and/or outcomes may be the central focus, deemphasizing non-U.S. "high-context", intuitive, psychoemotional, or nurturing aspects of the situations under consideration (Cohen, 1991; Ferraro, 1990). Second, much of the United States business environmentalism research has tended to concentrate on organizations which mostly operate in temperate northern midlatitudes, in heavily industrialized and information-oriented, oligopolistic economies, and in markets which include munificent

natural resources. These foci may orient United States (and U.S.-Canadian) business environmentalism researchers and practitioners to be less sensitive to the multitude of climates and ecosystems around the world, to economies which are less-industrialized, and to areas which are far more natural resource constrained than that of the United States (Odum, 1989).

Given the global and multifaceted nature of many environmental problems, such as ozone depletion, greenhouse warming, and the endangerment of species, an integration of models with a focus on *international examples* might allow our problem-solving concepts to be better matched to the problems themselves. While the proliferation of models identified above could be expected from an emerging subfield, a critical mass of these frameworks may now exist in which some initial comparisons, using examples which are *not* dominated by the U.S. experience, intuitively appears to be useful.

## The Greening of the Corporate Social Performance Model

To begin to develop a model of business environmentalism which adopts a perspective that is less United States-oriented and to recognize important differences in natural and related organizational environments around the world, this paper extends a corporate social-performance (CSP) model which has emerged from the several fields mentioned earlier—the framework developed by Wood (1991). After extensively reviewing the CSP literature, Wood segmented corporate social performance into three categories: *principles* of social responsibility, *processes* of social responsiveness, and *outcomes* of corporate behavior. The first of these included three principles: institutional legitimacy to use corporate power responsibly; organizational public responsibility for outcomes in societal arenas in which these organizations were involved; and, individual managerial discretion to forward socially responsible outcomes. Her second category of processes included environmental assessment, stakeholder management, and issues management. Her third category of outcomes contained social impacts, programs, and policies.

For the purpose of this paper, among the several contributions with which Wood's article is to be credited is the inclusion of environmentalists and natural environment issues in her "Principles" and "Outcomes" discussions, respectively, identifying a connection between business environmentalism and this view of CSP. We more fully discuss these and other actual and potential relationships between Wood's CSP model and business environmentalism below. However, in addition to the connections made between the concepts of CSP and business environmentalism by Wood, two other similar paradigms need to be mentioned for comparison.

Rands (1991) developed a CSP construction that also included three major components that were similar to those of Wood's. Rands first grouped various corporate social responsibilities into an *input* category, then listed a number of corporate processes and capacities in a second *throughput* classification,

and finally assigned corporate social response policies and actions to an *output* subdivision. Management and organization theorists will recognize that these three descriptors (input, throughput, and output) are several components of a *system,* an idea to which we will return. Not insignificantly, Rands mentioned environmental issues as a class of possible CSP inputs or social responsibilities and the hiring of environmental engineers as a possible output or social response in his scheme.

A third researcher (Shrivastava, 1991) used language similar to Rands' semisystems approach in his own tripartite concept of the "Organizational Implications of Environmentalism." The three organizational system components he identified which had direct implications to business environmentalism were: *inputs* of raw materials and fuels, which were linked to the environmental issues of deforestation and energy depletion and pollution; *throughputs* of plant, workers, wastes, and transportation, which were associated with several processes of environmental problem development, such as accidents, disease transmission, hazardous waste proliferation, and toxic spills; and *outputs* of products, packaging, and servicing, which could be connected for to safety, overpackaging, and product failure results.

When the three of these recent models are viewed together, several observations can be made about the current state of CSP and business environmentalism. The most visible similarity, among these approaches is that CSP is perceived as being composed of at least three somewhat distinct entities, but that each feeds from one concept to a second and then to a third. That is, just as in the Carroll (1979) and Wartick and Cochran (1985) CSP approaches, organizational responsibility, responsiveness, and issues or results have at least a *one-way* connection among them, that is, these three elements form the basis of a *system.* In the context of business environmentalism, environmental responsibility can lead to environmental responsiveness, which in turn can lead to environmental results.

While this tripartite "quasi-systems approach" of what we call CSP-business environmentalism has significant appeal, this paper builds on these and emphasizes more explicitly concepts either implied in or directly related to these models. First, each of these models assumes a crucial element of every system—a natural environment within which the other parts of the system operate. We argue that the scope and severity of today's natural environment problems need to become a more central part of human perception, both organizationally and societally (Postel, 1992). Therefore, in the model we forward, we graphically illustrate in our Figure 1 using several symbols of nature, the importance of the natural environment for organizational (and societal) performance assessment. Second, each of the three models reviewed immediately above assumes some kind of *one-way* interaction between inputs and throughputs and between throughputs and outputs. We argue that, if indeed CSP-business environmentalism can be conceived as a system, this system can have multiple,

dynamic feedback components in which *two-way* interactions between and within any of these three entities is possible (Walmsley, 1972). Our illustration of the derived model indicates this cycling idea, which we perceive as consistent with the concept of natural environment cycles (Odum, 1989).

## THE CSP MODEL AND BUSINESS ENVIRONMENTALISM

While any of the three models described, compared, and critiqued above could be used as the basis for a combined CSP-business environmentalism framework, Wood's was selected here on the basis of its familiarity to business and society academics and its comprehensiveness in development and description. Our approach is to examine each of the three major model components she suggested and to apply and expand on these to incorporate the concept of business environmentalism using European organizations and situations.

### CSP Principles and Business Environmentalism

Though the Principles of CSP which Wood identified—institutional legitimacy, organizational public responsibility, and individual managerial discretion—have strong theoretical bases, we suggest that these elements can be supplemented to form a more comprehensive set of criteria upon which to evaluate the motives, intentions, or values of organizational actors in their many environments, including their ecological environments. This is not to say that the three principles in Wood's CSP model have little to do with the natural environment. Rather, just the opposite is the case. Business as an institution, organizations themselves, and individual managers have appeared to have acted either responsibly or irresponsibly in environmental matters, as will be seen from the numerous examples provided throughout this paper. However, at least three other principles appear to deserve attention in a CSP model, especially when business environmentalism issues are considered. The principles we forward include: human species concern for ecological sustainability; place difference sensitivity, such as to variations in natural environments, natural environment impacts, and human responses to natural environment impacts; and finally, sector/alliance cooperation.

#### *The Ecological Sustainability Principle*

To state an obvious but often overlooked fact in business academia and practice, all human individuals, organizations, and societies continuously depend on the natural environment for their very existence. Like other animals and their collectivities, we require a healthy physical environment to provide us with air, water, food, shelter, heat, waste-absorption, and other necessities of life (Arthur, 1990).

According to an increasing number of informed sources, these survival requirements have come under severe pressure (*UNEP Profile,* 1990). Many organizations are now recognizing that the continuation of the properties of our natural environment to sustain life is a vital concern that needs increased, urgent, and comprehensive attention by our species (WCED, 1987). We advance the ecological sustainability principle for inclusion in the CSP-business environmentalism model to account for this growing "challenge". In addition, this sustainability principle also incorporates the responses which have been made or have yet to be made to protect the natural environment, not just for human beings and other species alive today, but also for future generations that will require the quality vital resources mentioned above in sufficient quantities for their own survival. The Paris-based International Chamber of Commerce's concept of sustainable development—"meeting the needs of the present without compromising the ability of future generations to meet their own needs"—is one articulation of this principle (ICC, 1991). This desire for businesses and societies to begin to adopt an ecological sustainability principle has been expressed over the last few years by numerous individuals and organizations at multiple levels of human organization. For example, in a message to the world's business leaders, the executive director of the United Nations Environment Program emphasized this principle: "Our beautiful and bountiful planet is in big trouble. This is not fiction or fantasy. We are in the midst of an international emergency that calls for action. Action—now—action based on scientific findings and common sense." (Tolba, 1991)

Many European organizations and European-based organizations, both public and private, have acknowledged the critical role the natural environment plays in the individual and organizational lives of its human stakeholders. A leading example is the European Commission's Fifth Programme, which discusses the roles of government, business, and other organizations and their respective relationships to the natural environment. This document, entitled *Toward Sustainability* emphasizes that "all human activity has an impact on the biophysical world and is, in turn, affected by it.... (and that) each of these (organizational) policies ... is dependent on the carrying capacity of the environment." (Commission of the European Community, 1992, p. 3). This program follows-up on the Community's action in 1987 to amend its Treaty (Article 130r(2)) to read "action by the Community relating to the environment shall be based on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source, and that the polluter should pay. The Commission, in its proposals ... concerning ... environmental protection will take as a base a high level of protection" (Vandermeersch, 1987, p. 415). Organizations such as the Geneva-based Business Council for Sustainable Development (BCSD), composed of 48 business leaders from around the world (13 from European countries) have argued that human civilization is about to enter a fourth revolution—the environmental revolution (BCSD, 1992, p. 10), and that "the quality of present

and future life rests on meeting basic human needs without destroying the environment on which all life depends. As business leaders, we are committed to sustainable development, to meeting the needs of the present without compromising the welfare of future generations" (Schmidheiny, 1992). Surely, if corporate social performance is concerned about human societies and their organizations continuing to exist, this concept needs to incorporate the protection and continuation of nature as a basic principle.

*The Place Difference Sensitivity Principle*

Second, CSP-business environmentalism models appear to need to include the principle of sensitivity to different natural environments, their impacts from human activities, and regionally-varying human organizational responses to these impacts. The Swiss-based BCSD, mentioned earlier, recognized this need for an appreciation of environmental diversity, calling for "policy mixes (which are) adopted by individual nations ... tailored to local circumstances ... recognizing that levels and conditions of development vary, resulting in different needs and abilities," (BCSD, 1992, p. 6). Among many others, two generic categories of place differences can be used in examining how sensitive organizations (or societies) are to the location of their activities: (1) the natural environment itself and human impacts upon it; and (2) the decisions and actions of organizations in response to these impacts.

Natural environment differences in geography, geology, hydrology, and climate may need to be taken into account in determining the degree and type of pollution and depletion a particular place can withstand before environmental quality begins to deteriorate. Organizations (or societies) which overtax their local, regional, or national environment's respective capacities to absorb these impacts would likely be assessed as low-performing CSP-business environmentalism entities (Odum, 1989). Similarly, those which are sensitive to their respective negative environmental place-oriented impacts would likely be assessed more positively. Alternatively, the corporate social performance of organizations with unwanted emissions may vary by region, depending on how these pollutants move through the air and water media used in discharge. Those organizations which pollute local environments that naturally and widely disperse their pollutants may be considered less socially responsible in regions which eventually receive these emissions than in those regions in which the discharges originate. The opposite may be the case in locales in which pollution dispersion is very low (Cookson, 1992).

Place differences within Europe and between Europe and other continents can be used as illustrations of the need for such sensitivity in corporate social performance assessments. First, Europe is a highly physically fragmented continent, with several large peninsulas and numerous offshore islands. These coastal areas are vulnerable, first, to pollution by large shipping industries, among

other human activities, second, to depletion by large fishing industries, and third, to both environmental problems from tourism and development industries.

Second, the continent's geological structure has contributed to place differences with differential environmental impacts. Northern sedimentary belts have been subject to intensive farming methods, which have been associated with pesticide, fertilizer, and herbicide runoff (Schmidheiny, 1992). The central Great European Plain has been both intensively farmed and overgrazed by livestock, creating both soil erosion and nonpoint sources of pollution. The southern mountain ranges have experienced not only these human environmental impacts, but also significant mining, forestry, and natural earthquake effects.

Third, Europe's water-related characteristics also need to be taken into account in assessments of place difference orientations in CSP-business environmentalism evaluations. For instance, while those European rivers flowing into the Atlantic exhibit rapid flows, thereby disbursing pollution to the rest of the world via the Atlantic Ocean, those which were are part of the North Sea subsystem are large and slow, allowing for large accumulations of water contaminants. The North Sea has another pollution dispersion problem, because the Gulf Stream prevents substantial exchange between the Atlantic and this relatively shallow body of water. The other two large European bodies of water, the Black and Mediterranean seas, are virtually landlocked, exacerbating water contamination problems in those regions.

Finally, much of Europe's climate is characterized by mild winters, cool summers, and sufficient precipitation, indicating less need for human temperature- and moisture-control than other areas of the planet. Within Europe, airflow is a major place-difference factor in the distribution of air pollution on the continent. The generally northwest flow means that, compared to regions on the Atlantic coast, the Scandinavian countries receive significant levels of air pollution from the continent's heavily industrialized midsection (Graham, 1987).

These place differences, based on variations within the natural environment and how humans interact with these, indicate that both organizations (and societies) need to be sensitive to these variations to ensure that the first principle of ecological sustainability is not violated on a local or regional level. We argue that those organizations which exhibit this awareness (and are highlighted in the next section of this paper) will be more likely to be assessed as high performers in the CSP-business environmentalism sense than those which do not.

Regarding differences in sensitivities to place attributed to organizational responses to environmental impacts, several organizational policy differences can be identified as potential considerations in CSP-business environmentalism assessments. The EC's Fifth Programme regarding environmental protection acknowledges the need for a principle of place sensitivity by the Commissions' taking into account "the diversity of situations in various regions of the

Community and, in particular, of the need for the economic and social development of the less wealthy regions of the Community" (Commission of the European Community, 1992, p. 5).

Differences in place due to variations in government environmental policy appear to play a large role in determining CSP-business environmentalism, for, if this stakeholder groups' environmental policies are perceived as legitimate and adequate, corporate compliance with such policies is usually considered to be a baseline on which to build such an assessment. For example, consumer products companies operating in Germany apparently will be held to a higher standard of compliance regarding recycling laws than those operating elsewhere in Europe. The recently passed German federal law mandating reverse distribution requires consumer packages to be returned through distribution channels back to packagers for 80%-90% recycling (Cairncross, 1992a).

Among the environment-related policy differences governments exhibit is variability in regulation. For instance, the United Kingdom first adopted its Environmental Protection Act in 1990, while the United States passed its National Environmental Policy Act 20 years earlier, in 1970. In this case, two firms alike in every respect except their respective locations, the United States and United Kingdom, would be held two different CSP-business environmentalism standards and expectations. For two decades, American firms would have been more likely to be considered poorer social performers than their British counterparts based solely on the environmental laws in effect in their respective home countries (Cridland, 1992). Regarding differences between the European Community and the United States in environmental law enforcement, hazardous waste liability is usually confined to generators and transporters in Europe, but landowners are also held liable in the United States, contributing to the greater level of environmental litigation in the United States and to a difference in how landowners would be assessed regarding CSP-business environmentalism (Bloom & Morton, 1991).

Several observers of the European environmental scene have identified sharp overall environmental-orientation differences among the several countries on the continent, typically segmenting Eastern and Western Europe, as well as distinguishing Northern, Central, and Southern European environmental attitudes and expectations. These observers have noted that nearly all Eastern European nations have severe natural environment problems due to lax environmental enforcement, at least compared to some Western European nations. In addition, Germany, the Netherlands, Denmark, and the other Scandinavian countries have often been cited as the most advanced in their general environmental attitudes and behaviors, including their respective businesses, governments, general publics, and environmental interest groups. Entities in these latter nations usually are identified as environmental leaders in the European Community (EC) and are most determined to ensure no EC

policy interferes with their own environmental standards. Societies in these latter countries will likely apply a higher standard of CSP-business environmental performance to organizations within those countries than will societies in other countries (Corcelle, 1989).

In addition to place differences in the environmental responses of governments and businesses, environmental groups also exhibit geographic variation, with implications for CSP-business environmentalism evaluations. Issues such as nuclear power, hydroelectric dams, and hazardous wastes have been salient features of the initial organizing of environmental interest groups (such as the European Environment Bureau) and "green" political parties in virtually every country on the continent (Rudig, 1991). However, differences in the influence of such parties exist within Europe. As might be expected, green parties play a more significant role in affecting national politics in countries in which they receive higher percentages of the vote, such as Germany, than they do in countries in which their electoral stature is minimal, such as in Spain. For this reason, societies in which environmental activism is significant are more likely to use higher environmental protection standards in CSP-business environmentalism assessments than are those with less environmental activism.

### *The Sector/Alliance Cooperation Principle*

A combined CSP-business environmentalism model appears to need to include the principle of sector/alliance cooperative responsibility. The global, multisector nature of many environmental problems argues against an individualist approach and for maximum cooperation befitting the "commons dilemma" that has become, in many ways, the commons crisis. One form of institutional cooperation is public-private explicit or implicit agreements to protect various natural environments. The EC's Fifth Programme on the natural environment actively promotes multisector cooperation, as described in its Toward Sustainability document. This long-term planning effort is attempting to promote a "let's work together approach ... impl(ying), in particular, a reinforcement of the dialogue with industry and the encouragement, in appropriate circumstances, of voluntary agreements and other forms of self-regulation " (Commission of the European Community, 1992, p. 6). These efforts are intended to include "the involvement of all economic and social partners.. (that is) representatives of enterprise, consumers, unions, professional organizations, non-governmental organizations, and local and regional authorities" (Commission, 1992, p. 9).

Numerous European organizations have already adopted an approach to sector/alliance cooperation via trade association environmentalism. One example of this cooperative effort is the proposal for continentwide joint research in life cycle analysis and ecolabeling being advocated by commodity producers in the glass and cardboard manufacturing industries (Knight, 1992).

A second example of potential multifirm self-regulating responsibility is illustrated by national chemical industries throughout Europe. Most European chemical industry associations have endorsed and begun to implement the so-called Responsible Care program, a ten-point agreement that each chemical company member will improve its environmental management practices (Responsible Care, 1991). As is typical in European business environmentalism, regional variations exist, with northern associations implementing more environmentally comprehensive programs and southern associations less.

Several other international associations of firms are active in the environmental management field. These include the Hamburg-based information clearinghouse and catalyst, International Network for Environmental Management (INEM), which includes 500 various-sized national and regional businesses and trade associations, and the London-based investment exchange East-West Environment Programme, a network of banks, businesses, NGOs, and governments involved in central and eastern Europe environmental programs.

Finally as an example of a multisectoral approach to environmental cooperation, the Confederation of British Industries, or CBI, has developed a partnership with several environmental nonprofit groups (Business in the Environment, the Environment Council, and Groundwork Foundation) to form the Environment Business Forum in the United Kingdom. CBI, an organization of mostly large British firms, is establishing this network to promote environmental excellence, self-regulation, and alliances among its members, in order to assist the environmental efforts especially of smaller firms in the United Kingdom.

## Integrating the CSP Principles

While CSP principles do not necessarily need to be integrated to be significant or usable in assessments, a CSP-business environmentalism model can include such integration as an indicator of environmental comprehensiveness. Presumably, if one principle is itself important in CSP consistency determinations, its congruence with other principles is also important. For instance, an integration of two of the CSP-business environmentalism principles mentioned above might be support for an international Environmental Code (an example of the ecological sustainability principle) and developing and implementing a more stringent company environmental code for areas which are especially environmentally sensitive (an example of the place difference sensitivity principle). The integration of the sector/alliance cooperation principle with these other principles would likely involve multinational, multisectoral negotiations similar to the Montreal Protocol or other international environmental negotiations (Davis, 1992).

## CSP Processes and Business Environmentalism

With regard to the processes of CSP—environmental assessment, stakeholder management, and issues management—we suggest that the examination of CSP-business environmentalism issues utilize a more comprehensive framework based on both strategic management and environmental management concepts, called ***strategic environmental management,*** or SEM (Starik & Carroll, 1991). This model employed the McKinsey 7S framework in assessments of organizational decisions and actions related to the natural environment. This latter framework identified seven strategic interdependent variables that have emerged through research and practice and have been suggested as guidance to researchers and practitioners in assessing overall organizational performance (Peters & Waterman, 1982). The best known application of the McKinsey construct identified differences between United States and non-U.S. companies and found that firms which concentrated on all 7S appeared more successful than those which focused on only strategy and structure (Pascale & Athos, 1981). The 7S model was used as the basis of SEM because practitioners have found the McKinsey model simple and useful, and because the breadth and depth of environmental management can be overwhelming without easy-to-use information processing models (Sturgess, 1992). An upgraded version of SEM presented here expands the "staff" category to include all organizational "stakeholders," an improvement that was suggested in the initial SEM paper mentioned above.

An expanded SEM approach incorporates all of the processes in the Wood CSP model in one or more of its "S" categories, such as the potential inclusion of environmental assessment and issues management in the development of the McKinsey "S" *strategy*. The advantage of using SEM is the breadth gained by including many other organizational analysis components, such as industry dynamics, internal strengths and weaknesses, external opportunities and threats, management and cultural values, and financial sensitivity, as opposed to including only the three processes presented in the CSP model. In addition, the SEM model, with its base in the McKinsey framework, argued for the ***integration*** of organizational processes for organizational effectiveness, a characteristic not explicitly incorporated into the Processes section of the Wood CSP model. Such all-around organizational effectiveness characteristics would need to be included in any CSP model that recognizes the multiple goals of organizations of attempting to achieve success economically, legally, ethically, and philanthropically (Carroll, 1979). Although numerous illustrations could be provided of European CSP-business environmental processes, below we indicate several of these to highlight this construct's applicability to non-U.S. organizations and contexts.

*Shared Values or Superordinate Goals*

This first McKinsey "S" is the set of long-range, big picture reasons for which organizations exist, sometimes labeled missions, objectives, philosophies, purposes, codes, credos, or visions. This category can be seen to tie CSP's principles and processes together, since values and goals can be considered both attitude- and behavior-related. The Business Council for Sustainable Development (BCSD), mentioned earlier, has acknowledged the relationship of this organizational characteristic to environmental protection in declaring that sustainable development "requires far-reaching shifts in corporate attitudes and new ways of doing business. A clear vision of a sustainable future mobilizes human energies to make the necessary changes, breaking out of familiar and established patterns. Strong leadership from the top (and) sustained commitment throughout the organization" are keys to realizing such visions (BCSD, 1992, pp. 8-9).

In business environmentalism, the best illustration of shared values or superordinate goals are the environmental codes of conduct that have been formulated and initially implemented by companies, trade groups, and mega-associations. Concerning the latter, the Paris-based International Chamber of Commerce (ICC) has developed a 16-point sustainable development charter which has been adopted by more than 600 companies worldwide (380 in Europe), in addition to several associations and coalitions (BCSD, 1992). This charter's principles include recognizing "environmental management as among the highest corporate priorities and as a key determinant to sustainable development, environmental innovation and audits, and, ... the minimisation of adverse environmental impact and waste generation, and the safe and responsible disposal of residual waste (ICC, 1991). Concerning industry association environmental codes, 65 such codes have been identified by the United Nations Environment Program on the Industry and Environment Office worldwide, 26 of European origin (UNEP Industry and Environment Office, 1992). For example, Eurelectric, the association of European electricity supply firms, has published and promoted both a statement of environmental policy and a code of conduct on the environment (Eurelectric, 1992). Companies also have adopted their own environmental policy statements, often publishing these in public reports. Volvo, for instance, claims to be one of the first industrial manufacturing corporations in the world to adopt an official environmental policy statement, which includes minimization of the firm's environmental impact through "applying a total view regarding the adverse impact of our products on the environment ..." (Volvo, 1989).

*Strategy*

The second "S", *strategy,* is the pattern of action an organization implements in expectation of meeting its goals by responding to or influencing its many

environments. Strategies can be identified on at least two levels—corporate and business—and can include at least two of the Wood CSP processes: environmental assessment and issues management (Freeman, 1984). All of these processes can have and have had natural environment components in businesses and other organizations. Regarding issues management, for instance, a recent survey found that European firms were involved in worker health and safety, toxic air pollution, emergency management, and hazardous and toxic chemical waste disposal issues and that nontoxic waste disposal would also become a significant issue in the mid-1990s (The Conference Board, 1991). Another survey found that 42% of Europe's top companies' CEOs believe that environmental protection is one of the top three near-term issues that will affect their respective firms ("The earth summit," 1992).

Natural environments and their interactions or possible interactions are typically assessed in corporate strategy formulation by firms conducting environmental reviews before acquiring "green businesses" (an SEM corporate strategy of diversification). Environmental assessment is also recommended for firms developing business strategies in toxic waste reduction (an SEM business strategy of potential low cost leadership) to identify similar competitor efforts, and, for those analyzing the market potential for adding "green" features to their current product line (an SEM business strategy of differentiation) (Hunt & Auster, 1990).

The former business strategy, attempting to become a low-cost leader by investing in pollution (or depletion) prevention, is illustrated by the Swiss-based cement manufacturer Holderbank, which has saved nearly a half million dollars in two months by adopting several energy conservation technologies and practices (Schmidheiny, 1992). Highlighting the same strategy is Novo-Nordisk, Denmark's largest pharmaceutical company, which reduced its nitrogen compound pollution control costs 90% by turning this into usable fertilizer and by recycling the wastewater from the process to a local coal-burning power plant to help control its sulfur emissions (Cairncross, 1992b).

Concerning the environmental strategy of developing "green" products, numerous firms have begun developing new, more environmentally-sensitive product lines. Waste Refineries International, Ltd. won a national United Kingdom award for developing peat-free compost from renewable farm wastes (RSA, 1991). The German small car producer, Volkswagen, has taken the lead in installing catalytic converters on many of its models, in direct contrast to other European carmakers, including Puegot, Fiat, Renault, and Ford. German firms are also leading in other environmental areas. They held about one-third of the $46 billion 1987 pollution equipment and services market, and three of their largest chemical firms—Hoechst, BASF, and Bayer—were the biggest European Community (EC) purchasers of environmental technology in 1986 (Beatley & Borchgrave, 1990).

*Structure*

The McKinsey "S", structure, refers to how an organization differentiates and integrates its many activities to assist in the implementation of strategy. Structural features in the SEM model include the installation of environmental interests on organization boards and the establishment of positions and departments whose main focus is environmental management. To monitor, influence, and respond to EC environmental decisions made in Brussels, firms in most European countries have used three types of structures relatively equally: a special board-level task force; an existing formal, scientifically-oriented environmental unit; and, country-based rather than Brussels-based lobbyists (The Conference Board, 1991). And, similar to American and Canadian firms, European companies most often are represented in environmentally-related stakeholder relationships by an environmental affairs officer or their staffs, either at the board committee (Volkswagen) or executive vice president (Norsk Hydro) levels (The Conference Board, 1991).

This environmental management function is sometimes combined with management responsibilities for occupational health and safety. For instance, Petrofina, the Brussels-based multinational integrated petroleum corporation, has recently established a Department of Health, Safety, Environment, and Quality, headed by a vice president, to coordinate its environmental management program with others in those related areas. Each of these programs is directed by a program manager. The department 's vice president and his environment manager had led the company's efforts in spill response, recycling, toxic waste reduction and treatment, and the development of renewable resource supplements to petroleum (Petrofina, 1991).

*Stakeholder Management*

While the original McKinsey 7S framework identified *staff* as a possible key to organizational success, more recent research and theory has focused on the important roles of other entities in organizational environments, including customers, suppliers, governments, trade associations, and interest groups (Freeman, 1984). Therefore, this SEM Model expands the concept of staff to *stakeholders* and suggests that organizational environmental effectiveness may be significantly affected by green consumers, investors, regulators, and environmental groups, as well as by environmentally motivated employees. The BCSD, supports this environmental stakeholder management concept, encouraging businesses to "expand our concept of those who have a stake in our operations to include not only employees and shareholders, but also suppliers, customers, neighbors, citizens' groups, and others. Appropriate communication with these stakeholders will help us to refine continually our visions, strategies, and actions" (BCSD, 1992, p. 8).

Nineteen companies in Europe, for instance, have formed an organization with governments and universities—the Centre for Exploitation of Science and

Technology or Cest—whose technical advisory group is encouraging these companies, to develop better metal and plastic recycling technologies (Hunt, 1992). Another example of stakeholders working together to solve environmental problems is the coordinating effort by the Confederation of British Industry in bringing together a number of groups, including environmentalists, academics and business people, around the concept of life-cycle (cradle-to-the-grave) analysis and techniques. In addition, Shell, Unilever, BASF, P&G, and Enichem are holding joint discussions on this topic as part of their promotion of lifecycle and development organization (Knight, 1992).

One of the best examples of environmentally stakeholder management can be seen in the German industry and government consortium called BAUM (Bundesdeutscher Arbeitskreis fur Umweltbewusstes Management e.V.). This nonprofit, multisector effort includes more than 300 organization members and was developed to spur business environmentalism in the country's private sector. BAUM's projects have included environmental protection program recommendations, environmental research, and environmental audit coordination, (Ohlsen & Markgraf, 1991). Other examples of apparently effective European environmental stakeholder management include Toni Yogurts in Switzerland, which not only identified and planned for a number of its internal and external stakeholders, but also interacted with them successfully to establish and then improve its effective packaging recycling program (Dyllick, 1989), and, British Petroleum, which identified the stakeholder imperative in building its Poole Harbour (UK) oil platform. After much research and planning of various options, the company reportedly initiated and engaged its stakeholders in an extensive public debate (Caincross, 1990).

### *Skills*

Managers typically are said to need at least three types of skills for success—technical, conceptual, and human relations. Regarding this McKinsey "S" and SEM, these skills would include a fundamental understanding of the firm's products and processes and their relationships to the natural environment, adeptness at identifying how organizational personnel and stakeholders fit into an effective organizational/natural environment system, and adroitness at ensuring that people in and around the organization make the decisions and take actions that include environmental sensitivity. As examples of the type of skill-building programs which can be classified in this category, in the United Kingdom, ICI and Johnson Matthey have developed training programs for their personnel on environmental hazards related to investing in Eastern Europe and are working more closely with environmental groups both in the United Kingdom and Eastern Europe to bring the latter region's environmental standards up to those emerging in the EC (Dempsey, 1992). The Hellenic Marine Environment Protection Association was established by a group of

Greek shipowners to raise the environmental awareness of their crews. In addition to designing and making available environmental software packages for use in shipboard computers, this organization has conducted voluntary training sessions for Greek seamen on a number environmental topics, including the impacts of oil pollution and compliance with international conventions on pollution at sea, and has run a public awareness campaign to promote Mediterranean Sea ecology (Hope, 1991).

*Style*

The McKinsey "S" of *style* often relates to organizational leadership, commitment, and culture, and, in many ways is a key to genuine business environmentalism. Organizations which appear to have either developed or acquired deeply ingrained environmental cultures typically are perceived as leaders in environmental performance. Activities which include environmental group philanthropy, environmental employee bulletin boards, mass-transit subsidy programs, and company-sponsored environmental events are examples of this component (Starik & Carroll, 1991). The Body Shop and Ernst Winter & Sohn appear to be two organizations which promote environmental styles throughout their organizations by, among other things, top management cheerleading, external ecoactivism, and encouragement of employee environmental projects.

One method of developing an environmental style that has been used by some organizations to encourage companywide environmental awareness is rewarding employees for working on ecological issues. A 1991 survey of European executives found that nearly half of their firms had such environmental reward programs in place and that these firms correlated with those who publicly accepted responsibility for the environmental problems they and their industries have created (Kaminski, Kadushin, & Tichy, 1991). ICI was reported to be one of the first companies in the United Kingdom to tie its managers' compensation to environmental performance (Summers, 1990). External awards programs also illustrate an organization's environmental style. For example, Volvo has annually awarded a prize to the "person or persons the international Prize Committee deem to have made an outstanding contribution or discovery concerning environmental health, environmental control, food, agriculture, nature and wildlife, pollution, hazardous waste, and other appropriate areas" (Volvo, 1992, p. 4).

*Systems*

As argued earlier, systems can be considered as sequentially interacting inputs, throughputs, outputs, and feedback mechanisms operating in one or more environments. Organizations have numerous systems and subsystems, several of which can be identified by major organizational functions, such as research/development/operations, information, and marketing.

Many illustrations could be provided of the "greening" of European R&D/ operations systems since these more technological activities are often the first and most visible ways organizations attempt to reduce their negative environmental impacts. For example, Lufthansa, the German-based airline, has developed, used, and marketed a new airplane paint stripping process, which employs high-pressure water sprays rather than strippers containing dichloromethane and phenol, two suspected carcinogens. In addition to recycling most of the water used in this process, Lufthansa has also substituted high-pressure air propellants for the CFCs it was using in its mechanical and electrical shops (Mecham, 1991). Loewe, a German television manufacturer, intentionally designed its products for easy dismantling, dividing each television into four primary parts for replacement and potential recycling (Hunt, 1992). A number of manufacturers of refrigerators and freezers in Central Europe have developed and manufacture energy-conserving, CFC-free models (Renich, 1991).

Regarding information systems, Norsk Hydro UK has published one of the first public accountings of the environmental impacts of its fertilizer, polymer, and aluminum production operations. Not only did it publish its own assessment, it also contracted Lloyd's Register to perform an independent assessment of six of its British plants and published their findings as well (Norsk Hydro, 1990). Such voluntary ecoauditing programs have become so popular in Europe that the EC is due to adopt a program of its own for use by businesses throughout Europe by 1994 (Tupper, 1991). Ecolabeling, or the provision of environmental information about products on their respective labels, is another important information and marketing system approach to business environmentalism. Several European nations, including Germany and Norway, utilize such a scheme, and consumer goods producers have voluntarily participated in "greening" their respective products, that is, in reducing their pollution or depletion impacts, and then advertising them as such. Germany's Blue Angel ecolabeling system has become the basis for a proposed EC-wide environmental labeling system.

Concerning marketing systems, packaging subsystems especially are coming under scrutiny as major contributors to global waste management problems. As landfills fill up and replacements become more costly to build and operate, some organizations are proposing revolutionary environmental changes to these systems. In Germany, for instance, a new ordinance backed by about 400 retail and packaging companies established what is called a Duales System, in which nearly half of all packaging will be recollected, sorted, and transferred to recycling and disposal firms (Ohlsen & Markgraf, 1991). A similar but more aggressive program in the Netherlands is aimed at reducing the volume of packaging by 10% by the year 2000 and to recycle 60% of all packages produced and used (Sluiman, 1991).

*Integration of the 7Ss*

Just as the 7Ss in the McKinsey model could be potentially integrated to enhance organizational effectiveness, so, too, can the 7 SEM components be integrated for environmental effectiveness (Starik & Carroll, 1991). Such integration is difficult to demonstrate, but we argue one condition for integration might be comprehensiveness and consistency, that is, that a firm demonstrate most or all of these SEM characteristics and that there are no obvious conflicts among these components (Cassell, 1991).

One organization continues to standout regarding the integration of all 7Ss of environmental management—the U.K.-based Body Shop. One description of the SEM orientation of this environmental award-winning personal care products firm would include: a broad-reaching, far-ranging ecophilosophy; numerous differentiated products based on nonsynthetic ingredients; an active, highly visible environmental affairs department; numerous alliances with environmental stakeholder groups; hiring and training practices which promote environmental awareness; an R&D system which excludes animal testing and focuses on Third World renewable resource development; and, the internal and external promotion of environmental activism (The Body Shop, 1991).

Another European example of integrated environmental management is exhibited by Ernst Winter & Sohn, a Hamburg-based equipment manufacturing organization. This company reportedly has incorporated environmental activity into nearly every aspect of its business, including a wide-scoped environmental policy, the establishment of a board-level environmental committee, the development of an employee environmental suggestion/reward scheme, installation of state-of-the-art pollution prevention and control equipment, the use of environmental criteria in plant siting and facility construction, and the encouragement of assistance with employee home environmental audits (Peters, 1991).

One development that may advance the integration of these seven elements of strategic environmental management, at least in the United Kingdom, is the newly adopted British Standard for Environmental Management Systems. This standard describes the components of an environmental management system similar to the SEM approach above and integrates such elements as environmental policies, structures, programs, and audits. While this standard is currently voluntary, it was developed to be complementary to the European Commission's approach to environmental auditing as it emerges in the next few years (Draft British standard environmental management system, 1991).

CSP-business environmentalism processes, then, can include the three corporate social responsiveness approaches of environmental assessment, stakeholder management, and issues management. However, the present CSP model goes beyond just these approaches to include attention to six other areas

which are intuitively and anecdotally related to organizational performance: superordinate goals, strategy, structure, style, skills, and systems.

*Direction and Degree of CSP-Business Environmentalism*

A further enhancement of the CSP model suggested here is the incorporation of the direction of where and the degree of how these Processes are proceeding. As indicated earlier in this article, a number of authors (e.g., Hunt & Auster, 1990; Logsden, 1985; Mathews, 1991; Post & Altman, 1991) have suggested descriptors in their models similar to the corporate social responsiveness categories used by Carroll (1979), and these can be employed in a combined CSP-business environmentalism model as rough indicators of an organization's SEM. For example, one study indicated that executives in European firms believed themselves to be "proactive" with many of their stakeholders, with the exception of regulatory agencies and environmental activists (The Conference Board, 1991). However, another study of large, European chemical firms found that a dynamic classification of the CSP-business environmentalism orientations of these firms was necessary, as these companies moved among the characterizations of "defensive," "offensive," and "innovative" over time and among several issues (Schot, 1992, p. 42).

## CSP Outcomes and Business Environmentalism

The third and final CSP category—outcomes—focuses on the social impacts of corporate behavior, including natural environment, social, and economic benefits and costs, and, on corporate social programs and policies, including both short- and long-term projects and both the intended and unintended consequences of these. Here, the connection between CSP and business environmentalism implies that, if outcomes beneficial to the natural environment are important in a CSP model, then the predecessors of outcomes—principles and processes—are likely also to be important. As indicated earlier, the current CSP paradigm does *not* yet explicitly include an ecological sustainability Principle, *nor* does it explicitly include the natural environment as a stakeholder in the paradigm's Processes. Therefore, natural environment impacts that are *not* necessarily "social," that is, "human," and that do *not* include both these consequences to *all* life and their associated nonliving ecosystems, are *not* explicitly included in the CSP models' outcomes.

We argue that a CSP-business environmentalism framework outcome construct needs to include explicitly these omitted (or implied) ecological elements and that these outcomes will follow or flow from the inclusion of principles and processes which identify natural environmental sensitivities. Therefore, a combined CSP-business environmentalism model would include important ecological concepts in the assessment of these impacts, including

thresholds, carrying capacity/load, entropy, interaction, habitats, feedback, and cycles (Throop, Starik, & Rands, 1993). In addition, multistakeholder evaluations of ecosystem pollution and depletion and changes in these environmental impacts would need to be included in these outcomes.

### Pollution Reduction

Many environmental management observers agree that the reduction of pollution, especially toxic, radioactive, and hazardous wastes, are the first socially responsible actions leading to an environmentally beneficial outcome most organizations should consider. The social benefits of this CSP-business environmentalism outcome are numerous and well-documented, including reductions in human diseases and accidents, reductions in solid waste problems, and protection of other life species and their habitats (Hirschhorn & Oldenburg, 1991). A number of organizations, including those in Europe, have reduced their per unit generation and emission of waste, and have been cataloged by Stephen Schmidheiny (1992). Henkel, the German detergent manufacturer, takes credit for helping to reduce the phosphates in German waters from 275,000 metric tons in 1978 to zero in 1991. Laing Homes, the U.K. residential construction firm claims to have saved 12%-20% of the energy used by its customers through the use of superweatherization techniques. In two years, Volkswagen reported it had reprocessed 2,000 of its cars, recycling 70% of the materials in these vehicles. Ciba-Geigy, the Swiss chemical firm, says it reduced its use of raw materials by one-third, its water by 100%, and its byproduct waste by 95% in the production of a chemical called amide.

Unfortunately, pollution problems are still increasing in most of the world, including throughout Europe, where nearly every country is experiencing both severe air and water pollution (World Resources Institute, 1992). The European Community is still generating more than two billion metric tons of solid waste each year, mostly agricultural, utility, household sewer, and industrial waste (Hirschhorn & Oldenburg, 1991). Increasing population and consumption are the suspected causes of this continuing environmental deterioration (Brown, 1992).

### Depletion Reduction

A second, but still vitally necessary, CSP-business environmentalism outcome is the discontinuation of the overuse of the world's natural resources—both renewable and nonrenewable. For example, at least eight countries in Europe are experiencing severe defoliation and destruction of their few remaining forests (World Resources Institute, 1992). Once again, while some actions have been taken, both around the world and in Europe in particular, leading to small-scale successes, and while the outcome of some resource depletion reduction has been realized in some localities, the problem continues

to increase globally, mostly due to continuous increases in global human population and consumption. For example, much of the European old growth forest in each of these areas has been removed for nonsustainable development purposes, though recently many acres have been replanted. While small wildlife are still abundant continentwide, large mammal wildlife are now often found only in the few remaining forests and in preserves. Europe's relatively high level of paper recycling was apparently too little too late compared to its need for paper and other forest products.

At the time of this writing, one of the most significant environmental impacts businesses and societies appear to be causing was the depletion of atmospheric ozone, due to the production and consumption of chlorofluorocarbons (CFCs) and related chemicals. Satellite data had revealed that ozone depletion had been far greater than expected and had subjected humans, other animals, and plants, in the mid-northern latitudes (including Europe) to much greater risk than was previously believed. In line with the CSP—business environmentalism model concepts advanced in this paper, chemical companies which continued to manufacture these chemicals, led by DuPont and ICI in Europe, and many European governments, including Germany, the Netherlands, Denmark, and the United Kingdom, had decided to advance the date of a production ban by several years in advance of the Montreal Protocol deadline. However, because adequate, non-ozone-destroying substitutes were available, a CSP-business environmentalism outcome that might be more defensible according to the principles and processes suggested in this paper would be immediate cessation of production, universal recycling, and eventual safe destruction of these chemicals ("A Message to the," 1991).

## Influences on Population and Consumption Increases

The time for human businesses and human societies to begin to grapple with the fundamental causes of global environmental problems appears now to be at hand. In June, 1992, the Rio United Nations Conference on Environment and Development began taking some first steps toward addressing the twin threats to ecological sustainability—excessive human population and consumption—both of which are increasing, nearly worldwide. But informed observers believe that many organizations may continue on a general business-as-usual course of not addressing these core obstacles to sustainability (Postel, 1992). The CSP-business environmentalism model suggested here would argue for an outcome of businesses and societies developing immediate, voluntary or regulatory approaches to controlling over-population and overconsumption.

Working especially from the principal of ecological sustainability, businesses and societies can use the SEM processes to develop superordinate goals, strategies, structures, skills, systems, styles, and stakeholder

management orientations to reduce these intense and immediate environmental pressures. Such CSP-business environmentalism measures might include sponsorship of population studies and programs aimed at zero population growth, while the outcome of reduced consumption might be realized by the use of nonconsumption advertising and the promotion of conservation-theme (reduction, rehabilitation, and recycling) messages and practices.

## THE HUMAN ORGANIZATION ENVIRONMENTAL PERFORMANCE (HOEP) MODEL

Figure 1 graphically illustrates a combined CSP-business environmentalism model, which we intentionally labeled The Human Organization Environmental Performance, or HOEP, model. We used the same tripartite approach described at the beginning of this paper which was characteristics of both CSP and business environmentalism models. The model builds on the work conducted by authors in these two subfields and enhances each by explicitly including several important elements, such as feedback, ecological sustainability, SEM, and depletion, that were not emphasized in previous models. Our intention is to perform an integration function and to ensure that the natural environment receives the attention we believe it deserves in our human conceptualizations of our human organizations. Hopefully, we have spurred at least the following potential model-building questions, which might begin to set out a research agenda: How prevalent or significant are the principles, processes, and outcomes of this model? Are there other principles, processes, and outcomes which are more or are also appropriate to CSP compared to those suggested here? And, exactly how would the suggestions made in the HOEP model be integrated with these other potential additions? Regarding model testing, how can these principles, processes, and outcomes be satisfactorily measured? What is the nature of the relationships among them? And, which relationships among them might be most significant or relevant to both business policy and public policy?

Business practitioners and others can use this model to assess and improve their own business environmentalism performance in several ways. Among the many possibilities, the model could be employed in assessing their own organizations, using the HOEP principles, processes, and outcomes as environmental-sensitivity criteria, filing gaps or weak areas, integrating these with one another, and monitoring and adjusting them as necessary. Similarly, organizational human stakeholders (societies) could use the model to pressure their organizations to adopt more genuinely, environmentally sensitive approaches sooner, more often, and on a wider scale.

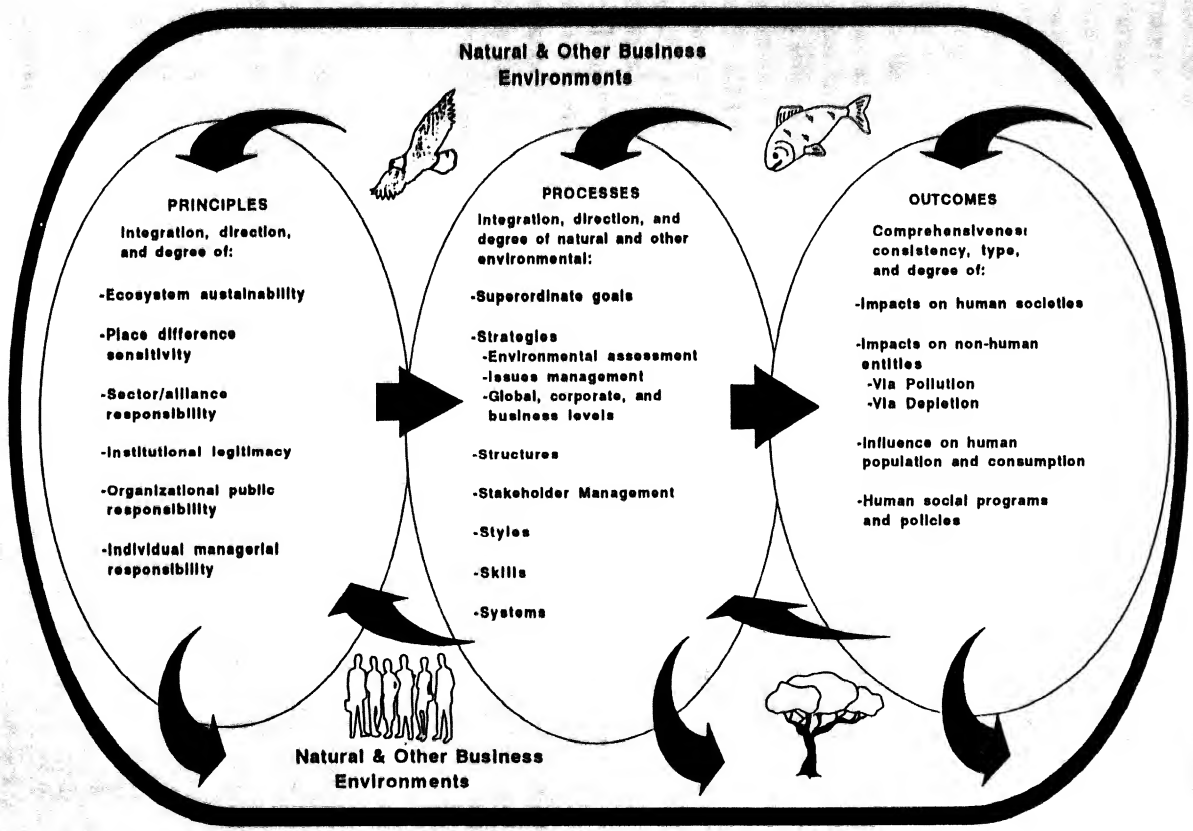


*Figure 1.* Human Organization Environmental Performance (HOEP) Model

## SUMMARY

The extent of our environmental crises appears to demand our recognition of the fragility of our coexistence with the Earth, our home, and our life-support system. This article has attempted to incorporate the profound urgency necessary for all human organizations to begin to assess their decisions and actions on the basis not only of important and accepted corporate social performance criteria, but also on more ecologically based principles, processes, and outcomes. With the inclusion and elevated prioritization of CSP-business environmentalism criteria, such as ecological sustainability inputs, environmental stakeholder management throughputs, and human-caused pollution and depletion reduction outputs, organizations in their *full* and natural environments can be evaluated comprehensively, consistent with nature's own life-giving principles, processes, and outcomes. An increasing number of international experts have indicated that the next two decades are critical for human life and well-being on this planet, requiring revolutionary thinking and action (Brown, 1992). We conclude by returning to the EC's Fifth Programme of Policy and Action in relation to the Environment and Sustainable Development to relay the sense of urgency this organization attempted to convey. To genuinely and significantly grapple with the "relentless deterioration" of the European natural environment, they warned that: "The road to sustainability may be long and difficult ... but the first steps must be taken NOW!" (Commission of the European Community, 1992, p. 10 emphasis in original). Our *hope* is that models similar to those reviewed, extended, and integrated in this article are among our profession's first steps along this road.

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# THE EVOLUTION OF THE BUSINESS CORPORATION:

## AN ANTHROPOLOGICAL PERSPECTIVE

USA

A12 M14 ~~N70~~ N70

Thomas M. Vetica

### NATURAL SELECTION AND SOCIO-CULTURAL EVOLUTION

Daily ads in the *Wall Street Journal* offer enticing investment and business opportunities in Poland, Hungary, and even Russia. Asian conglomerates compete with American and European firms and vie for world leadership in manufacturing power. Business organizations have established transnational networks and operate in collaborative efforts that national governments have not been capable of imitating. In their insightful and landmark analysis, Berle and Means (1932, p. 313) presaged current events:

> In still larger view, the modern corporation may be regarded as one form of social organization but potentially (if not yet actually) as the dominant institution in the modern world.... The future may see the economic organism, now typified by the corporation, not only on an equal plane with the state, but possibly even superseding it as the dominant form of social organization. The law of corporations, accordingly, might well be considered as a potential constitutional law for the new economic state, while business practice is increasingly assuming the aspect of economic statesmanship.

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It is not the power of the individual business leader, but rather, the tenacity of the organizational form of economic activity that has become the focus of attention of economists, legal scholars, social scientists, and historians of American business. The task of coming to grips with the actual nature of the corporation, what it is, why and how it functions, is complex and at times unclear.

This paper examines what the major business corporations in the United States are and how they have emerged and developed as such a dominant form of social organization. To do this, we first explain the interpretative framework for the analysis: an evolutionary epistemology. A history of corporate forms of organization in the West is then presented, in an attempt to extrapolate the criteria that have enabled the birth and growth of corporations in America.

The analytical framework used here is evolutionary epistemology. It is a framework that views the corporation as a social institution, a form of associative human activity within a social context, with its own history and development. By "evolutionary," we mean that the Darwinian model of biological evolution is used as an analogy for explaining and interpreting the evolution of human cultural patterns and organizations.

A Darwinian approach is not new to anthropology, but admittedly, has been down played within the discipline. Nevertheless, significant attempts to use the logics of the epistemology as applied to human culture have been made (Boyd & Richerson, 1985; Bowler, 1983; Campbell, 1969, 1971; Monod, 1971). We rely heavily, but not exclusively, on Ernst Mayr (1982, 1991) for an understanding of the Darwinian theory of evolution and the modern synthesis of evolutionary thought.

Darwin, according to Mayr (1991), was impressed with diversity and attempted to explain it against an intellectual ambiance that was convinced of essentialist categories. Darwin was so taken with diversity that he attempted to explain it as biological variation that seemed to be inherited. That ambition caused him to look for the structures and mechanisms, or processes, that explained the increased frequency of variation within populations. Not only the occurrence of variation, but also, the retention of variants seemed extremely significant for the survival of organisms and species.

We accept that the level of analysis is quite distinct when comparing biological organisms and human cultural patterns, but contend, nonetheless, that the same logic of analysis can apply. The logic is simple. There must be a means of accounting for variation within a population and a way of explaining how the variation is passed on. That is, there are forces or processes that account for the selection of variance and for its retention. For example, Boyd and Richerson (1985) applied evolutionary analysis to human cultural patterns. They examined the forces that affect the behavior of individuals within human groups.

From biology, we know that all organisms appear to have mechanisms that allow for phenotypic variation in adaptive response to the environment (Boyd & Richerson 1985, p. 4). The two loci of activity in a Darwinian model are the organism itself and its environment. The central underlying question is: what are the processes that account for variation? Put another way for human cultural variation: what are the events, processes, information, and environmental contingencies that explain the increase of some culturally transmitted variants and the decrease of frequency of others? The Darwinian approach calls attention to the processes that affect variation, retention, and survival.

One of the most concise models for understanding the evolution of human societies—whole societies as well as their parts—was outlined by Donald Campbell (1969). Campbell described three basic requirements for the evolution of cultural forms:the occurrence of variation, selection criteria or systems, and a retention mechanism (Campbell 1969, p. 73). If these conditions are met then an evolution in the direction of better fit becomes inevitable. This model is consistent with contemporary Darwinian evolutionary thinking (Mayr, 1991).

The environment is a most crucial variable. Environment comprises all the resources and information available in the physical or biological realm that are exogenous to the population of interest. The behaviors of the population are not part of the environment (Boyd & Richerson 1985, pp. 19-20). Causality in the natural selection model centers in the environment and its constraints, but not absolutely so. The sociocultural unit that achieves fit, achieves survival and persistence. It is an important contrast to an adaptation paradigm that puts causality in the internal adaptive mechanisms of the organism or organization. But causality is more aptly understood in the interplay between the environment and response (Mayr, 1991).

The combination of resources and their availability defines the range of "niches" that support organizational forms (Aldrich, 1979, pp. 27-29). Organizational forms are "specific configurations of goals, boundaries, and activities" that environmental criteria select. "Environmental niches are distinct combinations of resources and other constraints that are sufficient to support an organizational form. Organizational forms, then, are organized activity systems oriented toward exploiting the resources within a niche" (Aldrich, 1979, p. 28).

Campbell defined a niche simply as "a viable mode of living" (1969, p. 79). While admitting, generally, the progression in evolution is toward increasing complexity, at times the resources available within the niche have pointed that change in the direction of simplicity and smaller size. Bigger is not always better. Fit simply implies exploiting available resources.

Therefore, three requirements are necessary for sociocultural evolution. The first is variation. Campbell described several ways that variation occurs: there

can be variation between social groups; there are variations between internal dimensions of groups; and there are variations across occasions and within a social unit, that is, over time in the performance of organizational activities.

Selection of the units and forms occurs through any of various selective systems. Campbell discussed six possibilities. The first is the selective survival of complete social organizations. That is, the survival of parts of the social system can be attributed to the survival of the whole. Although that may be the appropriate model for sociocultural evolution, it cannot exhaust all possibilities. Human social systems differ as preservation systems and have a great variety of organizations that can be compatible with "effective collective action," so that human cultural organizations can be modified and varied systematically (Campbell, 1969, p. 74).

The second selective system is selective diffusion or borrowing between groups. Differential selection is the borrowing of successful forms from groups who are perceived as prospering.

The third system is the selective propagation of temporal variations, that is, human groups learn through trial and error. Experiences that are pleasurable and/or successful for group survival are selected as a result of a learning process. This same kind of reasoning explains the fourth type of selective system—selective imitation of interindividual variations. Many of the most successful responses are innovations of individuals or subgroups, so that variation within the group provides the mechanism for several selective systems.

The fifth system is the selective promotion to leadership and educational roles. Successful patterns of behavior and organization become institutionalized modes of group activity, that is, they are taught. A mechanism for retaining them is the selective elevation of individuals within the groups to roles of influence.

The final selection system is rational selection. This systems attributes change to cognitive and rational processing of information. Campbell cautioned, however, that just because human groups attribute change to rational processes does not mean that change, in fact, transpires according to those processes (Campbell, 1969, pp. 74-75). Boyd and Richerson maintained that for human groups the transmittal of behavioral patterns through rational calculation is extremely important. Trial and error learning can be very costly, even deadly. Calculated risk, based on knowledge of experience, enhances the success rate (Boyd & Richerson, 1985, pp. 83-94).

Having distinguished six types of selective systems, Campbell then explained several selection criteria. First among them is the necessity of a high rate of variation and a corresponding high rate of mortality. The greater the heterogeneity of forms, the greater the chances of survival of the group. Second, Campbell distinguished internal and external criteria. Here, he noted the proclivity of random processes to form into orderly and stable patterns. There are internal stability requirements in evolution, even though external pressures often negatively affect an organism's or social unit's reproductive success.

The third requirement is that of retention mechanism. There is an institutionalization of successful organization forms that, over time, takes on the aspect of tradition. Culture, heritage, and the passing on of tradition are major retention mechanisms.

This model serves as a heuristic device for understanding the emergence of the great business combinations in the United States and their becoming one of the dominant modes of social organization. The business corporation appeared at a particular time and has its own history. Key social and cultural forces, as well as the availability of resources and technology, have accounted for the rise in prominence of corporations. A review of that history will extricate those forces, establish an evolutionary framework, and demonstrate that the corporation is indeed a social institution, a form of social organization rich with sociocultural contexts, shaped by the constraints and limitations of a variety of historical and sociocultural circumstances.

## ANTECEDENTS OF THE MODERN CORPORATION

### Parameters of a Definition of the Corporation

J.P. Davis' preeminent work on the origin and development of business corporations emphasized the importance of the corporate form of social organization and the relationship between form and function. Prior to establishing economic criteria and discussion trade, Davis' concern was to uncover the kinds of corporate forms that emerged. That is, a corporation is a social entity that exercises a particular function (Davis, 1905a, pp. 5-6). As a form of social organization, the corporation can not be divorced from the broader social context in which it operates. It is part of a greater whole and must be studied in relation to the broader, formal, and functional social environment.

Davis described the appearance of the corporate form and its function from the Middle Ages to the modern period. The Middle Ages were characterized by the rearing of imposing institutions and he outlined and described them in detail: ecclesiastical organizations, municipalities, guilds, educational and eleemosynary institutions (Davis, 1905a, p. 90). These are described in terms of their influence on local life and the internal organizations of social groups. Later, the corporate form took on the characteristics of national expression, that is, as representative of broader interests of the emerging power of the nation states. The principal forms of organization in this stage were primarily economically oriented including, for example regulated companies, regulated-exclusive companies, joint stock companies, and colonial companies.

To this variety in corporate form, Davis ascribed several key characteristics, which leads to a definition of the corporation. The framework of his description

is that a corporation is a group of natural persons whose identity and function will be delimited according to the relation between its attributes and the relation between the corporate body and society at large (Davis, 1905a, p. 13).

The primary characteristics of the corporation are the following. First, it is goal-oriented and an associative activity. Individuals come together to join resources toward a common end. The activity undertaken thus may have continuous existence, at least until the achievement of the goals. Second, the corporation is created by the state and is subordinate to state authority. At the minimum, it is permitted to exist and function; at the maximum, it is considered an instrument of state function. Third, it is of voluntary inception: individual initiative and not state coercion is relied on and individual responsibility is the expected regulatory force. Fourth, the corporation enjoys autonomy, self-sufficiency, and self-renovation. The corporate group, then, acts as a unit and is acted on as a unit in all its relations to the other organs of society. And, finally, since it is a voluntary association of individuals that assumes group or corporate identity, the motive of individuals to associate is their own private interest. That is, the individuals who compose a corporation have a private or particular interest in the subject matter of the activity, whether it be religious, economic, or political (Davis, 1905a, p. .13-18).

The final point is significant. The corporation functions publicly and, as created by the state, is seen to advance public welfare through the pursuit of its private interest. It is not only sanctioned by the polity, but serves a public function in the pursuit of particular interest.

This distinction between private motive and public interest was not a basis for social or ideological conflict even in the post feudal, joint-stock companies. Indeed, the functioning of the Church or of any charitable institution, the establishing of schools and hospitals, the functions of merchant guilds, and the commercial endeavors of the chartered companies were all seen as beneficial to society and as advancing the welfare of citizens. The distinction between private and public corporations and private and public interest is a false distinction. "The 'private corporation' is a contradiction in terms" and the idea of the private corporation is simply a product of social and political conditions peculiar to the nineteenth century (Davis, 1905a, p. 31).

Davis defined the corporation

> A body of persons upon whom the state has conferred such voluntarily accepted but compulsorily maintained relations to one another and to all others that as an autonomous self-sufficient and self-renewing body they may determine and enforce their common will, and in pursuit of their private interest may exercise more efficiently social functions both specially conducive to public welfare and most appropriately exercised by associated persons (1905, p. 34)

It is worth restating that this definition applies to all corporate groups studied by Davis, from charitable organizations to joint stock companies. It is a definition gleaned from the review of social corporate forms in the history of the West. The underlying premise of the definition is that corporations are subsystems of larger polities and are permitted to pursue their objectives because private initiative is beneficial to the general welfare. Thus, human agents have joined together to care for the sick, to educate, to establish some order in local government, to build bridges, and to trade. The fact that the goals and functions of corporations differed, that some were ecclesial, others charitable, and others economic, did not alter the basic form and its central attributes and its relation to society.

## Trading Arrangements in History: Mesopotamia to Venice

Edwin S. Hunt (1987) attempted to explain the origins of the contemporary multinational corporation by analyzing the history of commercial activity beginning with the emergence of the state some 5,000 years ago. His attempt at explaining this history in evolutionary terms failed because he adopted a unilinear model of evolution that sought to explain the progression of the corporate form in successive stages. That is faulty evolutionary thinking. Not surprisingly, he argued that no clear evolutionary link could be established between early forms of corporate economic activity and modern corporations (Hunt, 1987, pp. 330-332).

Hunt's exposition did suggest that certain economic relationships in the past might foreshadow the corporation of modern times. For example, the ancient Mesopotamian empires had developed substantial commercial enterprises, trading partnerships were prominent in Sumeria and other empires, and merchant organizations did exist and enjoyed some freedom in setting prices and establishing markets. Yet, the central feature of the Mesopotamian empires, as well as in other early empires, was the centripetal function of the state. In some cases, profits were more properly commissions from the state on whose behalf commerce was conducted. In this, Hunt agreed with Polanyi (1957), yet also maintained that the regulation by the palace did not annul private entrepreneurial activity and profit taking by individuals. On the whole, Hunt agreed with Limet (1977) that the state apparatus of the early empires controlled and regulated trade that was undertaken to benefit the rulers and enhance the welfare of the empires. Hunt cited Limet:

> An apparent pattern to be drawn from documents from any area of the Near East in the second half of the second millennium is that most commercial traffic—especially in the sphere of foreign trade—was financed by the palace (and to a lesser degree by the temple—mainly in Egypt). The central administration employed its own merchants, who were institutionally set in the ranks of its subordinate personnel. On the other hand, the role of the private entrepreneurs seems to be rather limited (Hunt, 1987, p. 323).

Trade in the Roman empire was more developed and the merchant class better organized. Agriculture was central to the Roman "economy" and other enterprises, such as shipping and manufacturing, were secondary in importance to the grain trade. The state, however, did permit the grain merchants to organize. According to Rickman (1980), merchants organized into *collegia,* a lateral combination. Roman law gave the merchants tremendous latitude, even though the state took an active role in controlling tribute grain and grain from the imperial estates which was distributed to the army and to the common dole.

Yet, the aim of the association, or collegia, was to protect the individual merchants against arbitrary withdrawal of state privileges. It functioned as a kind of interest group which represented the merchants to the Roman Senate. The Roman collegia can be seen as a forerunner of the medieval guilds and, perhaps, the 19th-century trading cartels (Hunt, 1987, p. 325).

From the early empires of Rome to medieval Europe, Hunt argued that the conditions necessary for the emergence of the multinational business corporation—although trade was carried out across national boundaries—did not emerge until changes in legal systems occurred in the 19th century. Associative economic activity had emerged, but, even in the tightly regulated economies of Sumeria and Rome, private profit seeking was not proscribed.

Hunt did not offer a definition of a corporation. His interest was the multinational corporation, which he defined as a "cluster of corporations" of different nationalities that are joined together by common management (1987, p. 319). Hunt did, nevertheless, imply two attributes of business corporations which he tried to read in history: freedom from state interference and the ability to seek profit. For him, if either one was absent, then no true corporate identity existed. For example, there are two important antecedents to the modern corporation, namely, commercial enterprise in medieval Venice, and the joint stock and chartered companies of the 17th and 18th centuries.

Venice was the seat of a "commercial revolution" that brought with it new forms of organization. Three typical forms of commercial organization characterized Venetian commerce: (1) the *compagnia* was an association of investors as well as merchants, bound together in unlimited liability in a kind of partnership; (2) the *Societas Terra* were contracts between investors and merchants for a limited time period and with limited liability; and (3) the *commenda* was a contract similar to the *Societas Terra* that was undertaken for foreign and maritime trade (Hunt, 1987, p. 325-326).

Several characteristics of Venice and its commerce distinguished it from prior commercial organizations. Chief among them was that the economy was not based on land or agriculture, but on trade, commerce, and industry. Further, the welfare of the merchants was a paramount social concern: "prosperity of the individual merchant depended upon the welfare of the merchant class as a whole" (Cox, 1959, p. 43). A merchant oligarchy evolved that wielded the

real political power, even to the extent of electing the Doge, in whose person rested political authority (Hunt, 1987, p. 326).

According to Hunt's argument, individual merchants were restrained from individual entrepreneurship because of the concern for the welfare of the merchant class. The economic system was so imbedded in the political that concern for the welfare of the merchant class formally regulated commercial activity. This paper contends that this position needs to be reconciled with the rise of the great trading houses in Venice, as well as in other parts of Europe. In Venice, differentiation in wealth was notable, as well as the ability of some merchants to establish impressive trading houses whose range of operations extended beyond the limits of the Mediterranean coast (Braudel, 1972).

In other parts of Europe, while Venetian commerce developed along the politicoeconomic track of merchant oligarchy, the guild system was taking hold and moving in to a position of prominence. But even the guild system did not encompass every aspect of economic life. Great trading families that trace the origins of their commercial activity into the 12th century prospered throughout Europe and grew in prominence during the 15th century. Braudel (1972) explained the activities of the noble houses of Genoa, Florence, Venice, and Antwerp. They organized finances for kings, held trading fairs throughout the continent, and established commercial organizations with various types of employees and varying degrees of internal social stratification. Their activities extended into Africa, Turkey, and the Far East. Many of the families were established well before the Portuguese discovered a new route to the Orient.

What seems to be the case is that even though the guilds came to achieve a position of prominence in medieval economic life, individual entrepreneurs were able to rise above the guilds' homogenizing effects. And, it was in the coastal trading cities of the Mediterranean and inland city-states with access to those cities that the trading families gained considerable influence. Access to the sea—transportation—was key to the development of the trading houses. Genoa, Venice, Marseilles, (and, later, Antwerp) and Florence, with its direct overland route to Venice, came to be the dominant centers of trade by the 15th century. With the access of commerce, the cities prospered. As such, the connection between the welfare of the people, the freedom to pursue commercial activity, and the role of the state was established. The trading families certainly were corporations.

Despite the presence and activities of these trading families in parts of Europe, the guilds played an important role throughout the Middle Ages. Hunt argued that the medieval guilds, and later chartered and joint stock companies, approximate the form and function of the multinationals. However, they were not truly corporations to him, because their freedom to pursue economic activities was severely limited by the state, whose de facto agent some of the joint stock companies had become over time (Gardner 1971; Hunt, 1987). Rather than look for links between stages and imply characteristics from

present concerns, it is more precise to acknowledge the presence of human associative activity since the emergence of the state. The issue then becomes how to explain it and how to explain the difference over time. That humans combine efforts toward common goals should surprise no one. Extricating the factors that influence the shape and form of that organization is enlightening.

## Guilds and Regulated Companies

What seems to be important for understanding the background and development of economic organization in America is the nature of the functioning of the guilds and the chartered and joint stock companies. Davis examined several kinds of guilds that were characteristic of the Middle Ages. Suffice it to mention that trade guilds were composed of basically two types: merchant guilds and craftsmen guilds.

How did the guilds function? For Davis, it is questionable whether the guilds can appropriately be called corporations. They were, rather, associations of merchants or craftsmen, which at times and in particular places enjoyed much political influence. Yet, they were mere associations of individuals whose interests were protected by the association (Davis, 1905a, pp. 241-244). The idea of combined effort, or activity, toward the common goal was not yet fully developed. According to the criterion of common ownership, the guilds can not be considered a corporation. Hunt (1987) agreed that the guilds always remained horizontal associations of individuals without common ownership.

Three dimensions of the guilds have been described here. For Hunt, the lack of freedom from state interference and the lack of common ownership meant that the guilds were not ancestral business corporations. For Davis, they definitely were an important corporate form in which the idea of combined and coordinated effort had not fully developed. That capability was achieved, but surprisingly, with a nudge from the state in the notion of formal charters.

## The Chartered Companies

The regulated, or chartered, companies were organizations of merchants which were commissioned by the state to participate in trade and foreign commerce and even to initiate it. In England, the two most prominent companies were the Company of the Staple, or Merchants of the Staple. and the Company of Adventurers, or Merchants Adventurers (Davis, 1905b, Vol II, 65).

One underlying question is why the merchants would organize. Davis posited two "motives" for merchants to organize: political, to gain influence and power; and philanthropic, that is, the motive to civilize the non-European world. That really implies other realities. It means that individual gain was to be achieved through these organizations. Indeed, gaining political power and influence

translates into the ability to enhance one's own interests. The fact that these new types of organizations were taking shape also meant that the political structure of the greater polity was enabling it, so that one selective criterion becomes the ability to seek and enhance private interest, even profit, through associational activity.

The primary difference between the Company of the Merchants of the Staple and the Company of Merchant Adventurers was that the former functioned within national boundaries, in the consignment and marketing of staple, raw materials. The latter engaged in foreign trade and relied on individual incentive to open new foreign markets. A second, significant difference was that the Company of the Staple was charged by the government with public purpose—providing raw materials and foods necessary for the people. The Staple operated internally, and as a consequence, was subjected to government scrutiny. The Adventurers, on the other hand, enjoyed less state regulation, undertook their ventures at their own risk, and the benefits to the state were considered secondary and accrued primarily in the assessment of tariffs (Davis, 1905b, pp. 65-84). Both were chartered by the state and evolved through various stages of organization as chartered by successive kings.

Political functions accrued to the chartered companies, as merchants became representatives of their government in foreign territory. For example, the Muscovy Company was granted exclusive right to trade in Russia and became a political arm of the government of England. The East India Company, founded in 1600, was originally granted a 15-year trade monopoly in the Far East, from which it was hoped that huge revenues would rebound to the British Crown. Some regulated companies became regulated-exclusive companies and as such became political agents of the king. Agents of the company actually represented the Crown to foreign heads of state.

The key to understanding the rise and growth of the regulated companies lies in the political organization of the state. Far from enjoying freedom for government interference, it was the very nature of political organization, its capabilities and limitations, that explained, in part, the growth and development of these corporations. Davis argued (1905b, p. 85):

> The lack of closer political relations with foreign nations as well as of those between the government of England and its subjects made it necessary to leave for the exercise of groups of subjects prompted by the motive of self-interest many powers that were later to be resumed by the state. When the state became able to extend its functions over the field of activity occupied by the companies, they became obsolete...The fact that the merchants of England trading in France were never organized in a corporation is adequately explained by the close relations that existed between England and France since the Norman conquest.

This is so much the case that one of the principal differences between regulated and regulated-exclusive companies was that commercial activity predominated in the former, and political activity predominated in the latter.

Both the regulated and regulated-exclusive companies provided a state function whose nature and scope evolved over time. Individual investor-merchants formed corporations and were granted charters by the king, and later Parliament, to pursue commercial activity and open foreign markets. The companies had a right to garner profits from their trade as returns on the original investments. Charters, or grants, were conferred by the Crown and by foreign heads of state establishing exclusive trading rights. Consequently, the power and influence of the companies widened and trade was opened to all merchants. But eventually the political powers of the state augmented and resulted in the assumption of the political roles of the companies by government officials.

The regulated-exclusive companies became the joint-stock companies, such as the East India Company (Gardner, 1971). In time the number of investors grew as did the extent of commercial and political activity undertaken by the company on behalf of the English Crown. Indeed, both Hunt and Davis agreed that the most distinguishing feature of the East India Company was its contribution to the expansion of England. For Hunt, state regulation proves the lack of corporate identity—the company was an instrument of state policy. For Davis, it was the undeveloped British state which used the corporate apparatus for its own multiple purposes, among them political representation and governance. The English state provides the selective mechanism as the companies filled a need, or exploited a niche. This is of paramount historical significance. Davis concluded (1905b, pp. 151-152):

> The East Indian Company is the best illustration of the part performed by a corporation in national expansion because its development was so evenly graduated. Great political powers were bestowed on it originally for promoting the economic welfare of the English people and of swelling the revenues of the crown. It can hardly be said that any other purpose was entertained at the end of the sixteenth century.... The building of a political power in India by the company was only indirectly involved at first. The tendency to the increased restriction of corporate activity to the work of government observed in other kinds of corporations manifested itself in the history of the East India Company in the gradual encroachment on the field of the political government in India ... for the last twenty years of the corporation's existence its commercial functions had been taken from it and it had been left as the government of India.

The notion of state activity demands one further clarification. The East India Company began as a regulated company, composed of few investors and merchant adventurers whose scope of operations gradually broadened as well as its base of active participants, investors, merchants, and managers. The activity of this corporation, then, is expressive of a high degree of coordinated effort toward a common goal or goals. This differs greatly from the guilds of the Middle Ages which did not express the same functions nor purposes.

The conditions for overseas trading activity demanded more investment, larger organizations, and higher degrees of coordination. It entailed the

building of vessels, protection, coordination of trade routes, and so forth. An individual could not have undertaken such an effort alone. The larger the unit of activity, the greater the need for association and coordination, whether the motive for increasing the scale of operations was imposed by the state or by other circumstances. All of these factors contributed to the selecting of corporate activity and its associated and coordinated efforts.

It is fair to deduce that some form of managerial or coordinating capability is a sine qua non for the emergence of the great joint stock companies. The profit motive is present, as well as the drive to extend the political purposes of the state. As such, what begins to come to the surface in studying the history of the corporation in its economic function is that the motive for profit and self-interest is not enough to explain the emergence, persistence, and development of the corporation. The successful coordination of such endeavors meets an internal selection criterion for stability.

Davis' classification also included the final type of joint-stock company, the colonial company. Whereas the regulated-exclusive companies were granted charters by the English state, as well as by foreign rulers, to exclusive trade agreements, the newly discovered lands gave rise to another use, or function, of the corporate form. The colonial companies were chartered and conferred with distinct political and commercial obligations and duties.

The British government did not establish colonies directly, but rather permitted corporations to do so in the name of the state. The Plymouth Company, the Virginia Company, and the Massachusetts Bay Company are examples of the use of the corporate system to secure the development of colonies through the stimulation of private interests by grants from the state. The political and civil life of the colonies, once established, evolved from the form and functions of the colonial companies. Massachusetts Bay, as a colony, evolved form the corporate structure granted to the Massachusetts Bay Company and was perpetuated (Davis, 1905b, pp. 177-179; Handlin & Handlin, 1945).

The purpose of the state in granting charters to the colonial companies were several. They included the desire to colonize, the establishing of commerce and the extension of the dominion of the crown. The propagation of Christianity and the relief of the distressed classes of Britain were also considerations. But once established, the colonies developed a system of governance similar to, at first identical with but later separate from, the colonial company.

## A Recapitulation

Several points of clarification need be made at this juncture. The dominant themes running through the literature involve the recognition of the presence of some form of corporate commercial activity since the emergence of the state some 5,000 years ago; the use of the corporate form has not been limited to

commercial activity, indeed, churches, armies, governments, educational and eleemosynary institutions have existed for centuries, sharing the characteristics outlined by Davis. A wide variety of functions as well as variations within the form is evident in Davis' exposition. Further, the use of the corporate form by governments for commercial purposes and in order to secure political advantage seems to be an accepted dimension in history (Fisher, 1954; Gardner, 1971; Hunt, 1987; Polanyi, 1957). Finally, commerce was not restricted to the corporation as individuals, partners, and families engaged in trade.

Several explanatory criteria are readily discernible. The first is the pursuit of private interest, whether for its own sake or on behalf of the state and public welfare. The development of the state, its capacities and limitations, often explain the extent of the development of these various corporate forms. The nature of the activities and goals to be achieved and the technological capability to achieve them were always crucial. With the joint-stock companies in England, and to some extent in the merchant enterprises in Venice, the need for investment in building vessels and establishing the commercial apparatus demanded a high degree of participation and coordination. These are environmental conditions that made the corporate action possible and explain its limitations and potentialities.

What has been inescapable is the action of the state in the creation and employment of the corporation for its particular goals. But if the state is removed from its central role in the life of commercial corporations, the question once again becomes: why incorporate? This is the most crucial of questions for the debate has raged on the state's role in the chartering, regulation, and creation of corporations of all types.

## BUSINESS CORPORATION IN AMERICA

### The Charter: From Franchise To Limited Liability

The business corporation in America inherited the form of corporate structure from the colonial companies and the legal concepts that accompanied it. The business corporation in America began as a political expression performing a public function. The colonies transplanted a mercantilist European society. The tenets of mercantilism involved the integration of the social order with the nation state. The advancement of the state was intended to contribute to the welfare of its people, and that political objective affected the character of the state's instrumentalities (Chamberlain, 1982).

Yet an interesting transformation occurred between the 17th and 19th centuries. By the 1940s, the business corporation was no longer thought of as an instrumentality of the state. Rather, it was being defined by these three attributes: the idea of fictitious personality; limited liability; and freedom from

state interference (Handlin & Handlin, 1945). It was assumed that this had always been the case. Handlin and Handlin reviewed the history of the origins of business corporations in America to determine if, indeed, these three attributes had always defined the corporation in America.

Two often implied, uncritical assumptions are present in this history. The first accepts that it is to the economic advantage of individuals to incorporate. The second has been that the quality of "fictive personality" has enabled the corporation to operate as an individual person exercising individual rights, yet granting to the incorporators a special dispensation called limited liability. Both assumptions deserve some attention.

The notion of "fictive personality" as a legal construct was inherited from English jurisprudence. It granted the aggregate of individuals a corporate entity under the aspect of "personality" or "personhood." Davis argued that corporations as entities have been parts of legal systems dating back to Rome. Yet, the bestowal of artificial personhood never clearly emerged until 16th-century English jurisprudence (Davis, 1905b, pp. 211-247).

The principal significant quality derived from fictive personality is the ability to take in succession, or perpetuity. Importantly, as so construed, a corporation's dealings with society at large, especially the state, could be more readily handled. Blackstone's *Commentaries* of 1765 are an important source for legal scholarship regarding the solidification of the concept in law. Davis, extrapolating from Blackstone and also from the writings of Sir Edward Cook, saw that even though the corporation could be established as a fictive person, it was still up to the state to grant the corporate identity. Thus, the general purpose for creating them was to "subserve the 'advantage of the public' as in 'the advancement of religion, of learning, of commerce.'" The specific purpose was stipulated in the body of rights and obligations coffered to the corporation by law in its charter (Davis, 1905b, p. 211). Several scholars support this contention (Berle, 1959; Berle & Means, 1932; Bjork, 1969; Handlin & Handlin, 1945; Krooss & Gilbert, 1972).

When the corporation emerged in English history, it was primarily a form of social organization. (Maine's classic distinction of corporation sole and corporation aggregate reflected the presence and history of the corporate form of social organization and attempted to describe and understand it.) It was not primarily or necessarily an organizational form of commercial activity. When the form was used to initiate and advance commercial progress, the concepts were already present to the legal repertoire. Thus, Davis can boldly state that the purpose in creating them was to "subserve 'the advantage to the public.'"

When the notion of fictive personality became more broadly accepted and recognized, the general purpose for erecting corporations did not change. Davis suggested that developments of the 19th century were responsible for changes in corporate structure and identity. Underlying the assumption is his clearly

stated premise that it was 18th- and 19th-century liberalism with its emphasis on individual rights that gradually transformed the form as well as the function of the commercial corporation.

Yet, it would seem to be of major consequence to underscore what the corporation originally was in order to come to terms with the changes it has undergone. Berle and Means (1932) argued in a vein similar to that of Davis and the Handlins. The corporation in America evolved over time, inherited from English law as it stood at the end of the 18th century. "At that time a corporation was considered a 'franchise' (Norman-French 'privilege'): i.e., the very existence of the corporation was conditioned upon a grant from the state" (Berle & Means, p. 120). But that privilege which originally accrued to the public advantage has been transformed to an advantage of the corporate entity itself, namely that of the limited liability of stockholders (Berle & Means, 1932, p. 120).

How to account for the change and what it ultimately has meant for corporations and society alike is an essential undertaking. Handlin and Handlin (1945, p. 3) have shown that while partnerships and unincorporated joint-stock companies operated in England during the eighteenth century and well into the nineteenth, "the corporation was used extensively only in the organization of canal companies." The legal concepts of trusts and partnerships were used in most other commercial activity. But the full growth of business corporations occurred only after limited liability was granted after 1862 and the passage of the Consolidated Statute. By 1862, America had enjoyed nearly one hundred years of independence and the great corporate revolution was already underway, spurred by sociopolitical forces.

America inherited much of the British legal repertoire. By 1800, the corporation was used in America mainly for undertakings involving a direct public interest. By 1800 there were between 320 and 335 profit-seeking corporations (Berle & Means, 1932, p. 11; Krooss & Gilbert, 1972, p. 88). Most of them (two-thirds) were involved in the construction of turnpikes, bridges, and canals. The rest were divided among companies that provided water and fire protection, banks, and insurance companies. Only six incorporated companies were in the manufacturing field. The banks and insurance companies were perceived as necessary institutions to ensure the success of agriculture. Each of these companies received its charter from an act of the state legislature, in which the relationship and responsibilities between the incorporators and the purpose of the incorporation, responsibilities to the stockholders, and the relationship to the state were specified and stipulated. The state legitimized and sanctioned corporations and corporate activity in this three fold negotiation.

But, these incorporators did not enjoy limited liability. On the contrary, they were liable to their creditors and could only renew the financial resources of the corporation by appealing to the stockholders. Therefore, they entered fields

of endeavor with low or little risk of failure. The fact that most of the corporations contracted to public works activities attests to the reality of the safeness of the investment and security of return to shareholders (Handlin & Handlin, 1945, pp. 8-16).

Fraser (1983) has argued that to suggest that the corporation was thus an economic agent of the state, as the Handlins imply and as James Willard Hurst (1970) maintained, would fall short of total appreciation of what they were about. In the young republic there were influential people who viewed corporations as a body politic, an association of individuals imbued with the civic ethos appropriate to the genuine republican community (Fraser, 1983, p. 6). It existed within the community and espoused communitarian ideals.

The notion of franchise, or chartering, challenges any assumption of the freedom from government interference. Indeed, the Handlins conclude in a strong statement:

> At its origin in Massachusetts the corporation was conceived as an agency of the government, endowed with public attributes, exclusive privileges, and political power, and designed to serve a social function for the state." (Handlin & Handlin, 1945, p. 22).

Between 1897 and 1818, Massachusetts incorporated as many as 90 manufacturing and textile companies through acts of the legislature. But, in 1811, New York made it possible to incorporate without special legislative action by passing general incorporation laws. Other states followed. By 1875, 24 of the 37 states had passed similar legislation (Krooss & Gilbert 102, 160).[1]

The legal structure that permitted the use of the corporate form was changing, reflective in itself of broader social and political changes in the country. The key feature of the change was the notion of limited liability. It meant that the state was willing to enforce voluntary contractual agreements of individuals without inquiring into their equity. The concept only came to the fore in the middle of the 19th century, as charters were granted for risky enterprises requiring large amounts of capital. This is a key explanatory notion in the development of the modern enterprise. Large amounts of capital became necessary as the undertakings became larger and the financial risk increased. Thus, the "limited liability for the stockholders of the joint stock corporation made possible the rise of the modern industrial private enterprise" (Bjork, 1969, p. 112). Several key legal and cultural developments established the framework for the development of the legal concept of limited liability.

## Cultural Values: Controversies of Natural Aristocracy and Monopoly

In the sociopolitical context of the young nation, the struggles between the Jeffersonian democrats and the Federalist party on the nature and future of the new republic were expressed in the use of incorporation. According to

Fraser (1983), the device of incorporation was a suitable instrument available to the Federalists to press their case forward, the case of the necessity of a ruling, natural aristocracy.

Even after the revolution, possession of property was closely linked to civil status. Property or freehold status were seen as qualifications for suffrage. Although the Americans had rejected the idea of hereditary aristocracy, the notion of a natural aristocracy was central to the thinking and action of the Federalist party and its rejection of the homogenizing influences of Jeffersonian democracy. Fraser argued that the Federalists did not object to granting governmental powers to the states; they objected to the kind of men who would run those governments. Their policy, as espoused in the *Federalist Papers,* was that more general qualifications in talents and civic achievement would stand out in favorable recommendation of men to national office. They feared that local elections would not bring the best men forward and hoped that the new constitution would ensure that the best, the natural aristocracy of the country, would come forward to govern (Hamilton, 1961; Wood, 1972). Universal suffrage was not so easily accepted by the founding fathers (Bellah, 1985, pp. 253-256).

Arguing that the device of incorporation was employed as a means of advancing the Federalist cause, Fraser (1983, p. 10) contended that:

> The widespread use of the corporate form by the commercial and professional gentry of the early republic represented a means of reasserting the civil status of the 'natural aristocracy' that was no less effective and much more direct, than the new Federalist party and its electioneering press which were similarly deployed against the levelling influences of Jeffersonian democracy.

The corporation, according to the Republican ideal, was vested with public interest, it was not conceived as an instrument of alienation and class struggle in any Marxian sense. Rather, it was the public interest, as upheld by the elite, the self-proclaimed natural aristocracy, the citizen body; it was an elitism fashioned after the ideal of Aristotelian republicanism.

Aristotle, and Plato before him, believed that the state should be run by those who had the natural capacity for it. The political equality of all free men does not mean that talents and skills are equally shared. For Plato, those who were endowed with skill and talent to rule should do so, and all others should occupy themselves with farming, manufacturing, and other activities. Aristotle taught that laborers were not capable of leading the good life and should be excluded from the citizen body. Different men have different skills. Different jobs require different skills. Each man should devote himself to work according to his skill. Plato's division of the state into rulers, warriors, and workers is based on these ideas. Aristotle's concept of natural slaves, men who are fitted by nature for manual labor and taking orders, and of the citizen elite, those

who are capable of ruling and making decisions, is also based on the same notion of inegalitarianism (Aristotle's *Politics* III, pp. 1277-1280; Held, 1987, pp. 13-34; Plato's *Republic V*, pp. 469-472).

These were the ideas that underlay the Federalists concept of a natural aristocracy—the elite, the citizen body, invested with civic ethos. If indeed, as Fraser argued, incorporation became a device to enhance the elitist position of the Federalists, the basic argument of the Handlins is taken to a new dimension. The corporation was not merely a "public service" agent of the state. Rather, the corporation was a body politic, as the law granted to private property a civil status. "Any enterprise endowed with a charter was lifted above the crass pursuit of a merely private interest by the common law conception of the corporation as an association of persons vested by policy of the law with certain powers deemed necessary to the successful promotion of some design of general utility and public benefit" (Fraser, 1983, p. 10).

The delineation of the public interest at stake increasingly became the domain of the corporations themselves.[2] But, for that to be fully recognized, several events occurred which had repercussions in the conceptual and legal development of corporations.

First, whereas the Federalists perceived a commitment to save the new republic by a government of the many by the enlightened few, and supported incorporation as necessary for the survival and growth of the country, the Jeffersonian Democrats were suspicious of commercial corporate charters as a monopolistic privilege for the few who would increase their wealth at the expense of the people. At the time it was individual investors, not banks, that supplied the financing for most commercial ventures.

This controversy came to the forefront in the hotly debated chartering of the First Bank of the United States by Congress. It had been left to the states to charter corporations. But the Federalists pushed for and won in Congress the federal chartering of a national bank. For Jefferson, this amounted to an official sanction of monopoly. Hamilton, on the other hand, believed that the national bank was necessary for the solvency of the currency. But, the bank was also a means of binding the interests of the Federalist Party to the future of the country. When Jefferson became President, he simply let the charter of the bank expire without renewing it. Another attempt was made at establishing a national bank during the Presidency of Andrew Jackson. Jackson would have nothing to do with it, believing it to be unconstitutional and against the true spirit of democracy (Bjork, 1969, p. 108). These two opposing values endured in the American tradition: an appreciation for the civic-mindedness of business leaders and a suspicion of those who would advance their own wealth at the expense of the public.

This latter cultural "value," a suspicion of the powerful, can not be understated. It is an expression of the American ideology itself which espouses individualism, antistatism, decentralism, freedom, and meritocracy.

Monopolies are not to be tolerated. Lispet (1990) argued that these are the values that have shaped the growth of organizations and the very society of the United States. They are values that have been fixed in the legal system that not only purports to protect individual rights, but also has established checks on the use of power, including the power of government. It is a dynamic system, not a static code, that responds to current interpretations of the values inherent in society. That these values became reflected in law provides a key selective resource and explanation for the specific evolutionary course of the business corporation.

## Law and the Gradual Advance of the Freedom of the Board of Trustees

Other key developments in the history of the corporation involve decisions handed down by the courts, the first of these by the Supreme Judicial Court in Massachusetts. In 1807, the *Ellis* v. *Marshall* decision established the distinction between public and private corporations. Public corporations were those that functioned toward the public good; private corporations functioned for the benefit of the owners (Fraser, 1983, p. 12). It was an important step. Corporations could now act as free associations of individuals, rather than as arms of the state. The full extent of that decision was not wholly felt for some time.

The second decision was more monumental and came before the United States Supreme Court in 1814. The legislature of the State of New Hampshire had attempted to alter the charter of Dartmouth College without the consent of the trustees. The Supreme Court of the State of New Hampshire had ruled that any alteration was justifiable since, by virtue of incorporation, the college served a public purpose. The United States Supreme Court, however, found that the distinction between private and public corporations did not rest on the pursuit of profit or the general purpose of each corporation, but rather, on the interests at stake in each. The charter did not give the college a monopolistic privilege on education in the state. It gave the college the right to exist as an educational institution and to negotiate with its students as it saw fit (Bjork, 1969, p. 110).

> Public corporations included only those corporations 'founded by the government for public purposes, where the whole interests belong also to the government.' If, on the other hand, 'the foundation be private, though under the charter of the government, the corporation is private, however extensive the uses may be to which it is devoted, either by the bounty of the founder or the nature and objects of the institution' (Fraser, 1983, p. 12; *Trustees of Dartmouth College* v. *Woodard*, 1819, pp. 663-672).

The right of the board of trustees to decide freely on any course of action was determined in this crucial decision.

Fraser's interpretation of the decision, however, maintained that Federalist tendencies inhere in the notion of granting to the governing board authority independent of the legislature. That is, the internal governing board is constituted as a public sphere within the corporation and is endowed with the civic ethos necessary for the performance of public good. Theoretically, this assumed a natural aristocracy or civic elite within the corporation who would ensure the survival of the corporation and safeguard the primary purpose, namely, to seek the good of the people. Indeed, Fraser maintained that Chief Justice Hornblower of New Jersey, in a subsequent decision in another case, likened the shareholders of a corporation to the voting public in our republican polity. The equal rights of all the shareholders are to be respected and the right to vote upheld. But governance is the hand of the elected few. "The survival of the corporate public sphere was possible therefore only so long as it retained the form of an Aristotelian polity, that is to say, 'an association of persons formed with a view to some good purpose'" (Fraser, 1983, p. 13).

The third case of special significance also came before the United States Supreme Court in 1839. In the *Charles River Bridge* v. *Warren Bridge* case the court ruled that the charter of the Charles River Bridge Company could not be considered a permanent monopoly in providing crossing over the Charles River. The company had argued that it had exclusive privilege to that effect by virtue of its charter. The court decided that it was not in the public interest to grant a permanent monopoly to a private group, even though the company performed a valuable public function (Bjork, 1969, p. 111).

These cases point to cultural values and changing legal viewpoints regarding the corporation. Monopolies would not be tolerated. Government had the right and obligation to oversee corporations "in the public interest." On the other hand, the right of the directors to decide for the corporate entity, independent of the state, was established. Government and private corporations had their own authoritative domains. The notion of limited liability of the shareholders gained a foothold. And it was this notion of limited liability which came to be the most central definitional characteristic of the corporation in America. Limited liability led to the dispersion of ownership of corporations and the eventual concentration of wealth and power in the huge commercial enterprises. Limited liability made possible the corporate revolution in America which really only began in the second half of the 19th century (Berle & Means, 1932, pp. XXV-XXX).[3]

The notion of chartering remains part of the legal structure, even though quite unlike its earlier applications. The issue which underlies the question of chartering is really the idea of the social legitimacy of the corporation. Hurst (1970) argued that in the first century of this country, the corporation was conceived of as a "utility." As such, it was chartered to serve the public good. Indeed, some industries are still considered utilities because of the basic services they provide society. However, as the social and legal norms changed and the notion of limited

liability facilitated the growth of corporations, the expression of the need for legitimacy correspondingly changed. That is, our traditions demand that all forms of power be legitimated by criteria of utility or of responsibility. The regulation of corporations, once the utility inherent in chartering changed, became a right of government. The relation between the corporation and the state and the concern for the public good has been a constant dimension of the sociocultural system (Hurst, 1970, pp. 59-111). Indeed, since the corporation is part of culture as well as part of the market, the notion that government and society have no role regarding commerce is, at best, dubious.

## A Preliminary Summary

All too often, business corporations are perceived as instruments of the market and not as part of culture. Indeed, they are forms of social organization that have been shaped as much by cultural values and legal codes as by the availability of raw materials, technology, and other resources.

The action of the state has been and continues to be a selective criterion for the growth of corporations, even within the American system that defends corporate action in the language of individual rights. It is the American defense of individualism that made possible, at least in part, the great corporate revolution in America and differentiates it from the development of corporations in other countries. As the freedom of boards of directors of private corporations became established, two distinct domains of authority were recognized: the state's and the corporation's. Eventually, a system of checks and balances emerged in the American political system.

Two essential selective mechanisms are explicated here. The first is the action of the state, its capabilities and limitations as well as its claim of authority over social institutions. The state legitimizes institutions, even as it permits them to function. The second factor is the nature of cultural values that are expressive of the American ideology. A suspicion of the powerful (including government), individualism, antistatism, decentralism, freedom, and meritocracy are definitional American values.

This paper contends that these values have played an essential role in the way the corporate revolution in America advanced. Great Britain favors family-owned and operated corporations and the monopolies that sometimes accompany economic expansion. German law protects cartels for the good of the country. American law protects individual companies from the monopoly of cartels and encourages competition for the good of the country.

Cultural values and the ever-changing political system enabled the advance of the corporate revolution, but they were not the only factors. Once the notion of the limited liability of shareholders became accepted, the nature of the free enterprise system changed dramatically. Many factors and forces converged rapidly to fuel that change.

## BERLE AND MEANS: SEPARATION OF OWNERSHIP FROM CONTROL

If the recognition of the independence of the board of trustees, whatever the political motive, and the acceptance of the notion of limited liability became part of the legal structure such that these two characteristics came to define the corporation, at least legally, then it remains to be shown that the prospect of limited liability was in itself a sufficient motive for individuals to incorporate, but this statement is poorly posed. For, the emergent acceptance of the private character of corporations and limited liability were reflective of deeper sociopolitical processes. Indeed, as Berle and Means suggest, these attributes changed the nature of the free enterprise system.

The celebrated thesis of Berle and Means (1932) maintained that the corporate revolution in America separated ownership from control over the means of production. That development can only be understood in terms of five driving forces which shaped it, namely, an unprecedented increase in productivity, the massive collectivization of property devoted to production coupled with the decline of individual decision making, massive dissociation of wealth from active management, growing pressure for a greater distribution of that wealth, and the assertion of individualism and the individual's right to choose and consume (Berle & Means, 1932, p. XXV).

The dispersion of ownership through shares of stock and the control of the enterprise passed into the hands of hired managers meant the turning of traditional economics on its head. Property and wealth became passive, expressed in terms of shares which have a market value. The owners abdicated individual initiative to the managers and directors, and thereby the profit motive came into question. The corporation now embodied varied and sometimes complex sets of relationships which management sought to satisfy (Berk & Means, 1932, pp. 304-309).[4]

The theoretical-epistemological importance of this thesis is that it presented an evolutionary framework for understanding how the business corporation grew so rapidly to unprecedented levels of power and influence. Berle and Means described five driving forces that explained this rapid development. Some are internal to the organization of the corporate structure, such as the hiring of salaried managers. Others are external and societal in nature, such as the continued assertion of individualism and the individual's right to choose and to consume.[5]

One of the implications of the thesis is the notion of causality. The central piece of the theory is the separation of ownership from control through the issuance of stock. It then argues that the five forces shaped the historical development as well as the continued trajectory of the corporation. We argue, however, that the notion of limited liability of the shareholders gained legal ground due to the cultural values that shaped the law. Individualism and the

right of individuals were a given. The massive collectivization of wealth, the dispersion of ownership, and the pressure for a greater distribution of that wealth were consequent to the original, key, historical event of the recognition in law of limited liability. The consequence of the development of the corporation in America became, in time, the transfer of control to managers, dispersion of ownership, and the need to attend to myriad sets of relationships.

We nevertheless agree that these forces are part of the selective system that served as positive feedback in generating the motors of the corporate revolution. Other factors that meet selection criteria still need to be explicated. One of them is the need of internal stability. It is Coase's explanation of the emergence of the firm that addresses the question of why corporate activity happens in the market place.

## Coase And Williamson: Efficiency In Cost Reduction

One successful response to that question comes from microeconomics, which examines why the firm emerges from the free market system, but does not address legal and sociocultural issues. Nevertheless, Coase's *The Nature of the Firm* (1937) is considered a classic statement that directly addresses the issue. This statement of microeconomic was later elaborated on by Williamson (1980, 1981, 1986). Coase's central question is precisely, why does the firm emerge?

There are two basic assumptions made by neoclassical economists regarding the free market and resource allocation. These are that the price mechanism regulates resource allocation, and that this allocation depends on the private entrepreneur. Coase argued that the firm emerges because there is a cost to the price mechanism. The most relevant cost lies in discovering what the prices are and being able to reduce them.

Coase made the "transaction" the focus of analysis, not the social form. The firm's ability to control internally the allocation of resources and the distribution of products was advantageous. The nature of the price mechanisms and the assumptions implicit to free market theories are directly implicated as the transaction becomes the unit of analysis. Coase argued (1937, p. 388):

> Outside the firm, price movements direct production, which is coordinated through a series of exchange transactions on the market. Within a firm, these market transactions are eliminated and in place of the complicated market structure with exchange transactions is substituted the entrepreneur-co-ordinator, who directs production. It is clear that these are alternative means of co-ordinating production.

But, internal organization has its costs. Thus, balance is achieved and the firm expands to the point that the costs of organizing transactions within the firm become equal to the costs of carrying out the transactions on the open market.

Williamson (1986) has taken Coase's argument further. Transaction cost approach means that the corporation is first and foremost an efficiency instrument. Transaction cost economics has come to terms with two important human behavioral assumptions, namely, bounded rationality and opportunism. Economic actors act rationally toward fulfillment of goals, an intended rationality, but human experience is limited in formulating and solving complex problems, receiving and processing information, transmitting information, and so forth. Rational decision making is thus bounded by these common sense, experiential limitations. Opportunism merely extends the usual assumption of self-interest in entrepreneurial activity. The simultaneous presence of bounded rationality and opportunism have affected the nature of contracting. Taking these two behavioral assumptions into account, Williamson (1981, p. 1546) suggested that the real functioning of economic organization is to "assess alternative governance structures in terms of their capacities to economize on bounded rationality while simultaneously safeguarding transactions against opportunism."

According to transaction cost analysis one of the explanations for the emergence of the firm, one answer to the question "why incorporate?" is generated from the context of the free market economy which at once shapes and is changed by the firm. The firm emerges because it is economically efficient and advantageous to do so. Transaction and contractual costs are more effectively handled within the firm than between the firm and outside providers.

Williamson (1981) noted that, ceteris paribus, the great corporate revolution in America did not begin until the mid-19th century, when the enabling conditions were in place. That is, not only was the legal system in place to permit the growth of "private" corporations, but demographics were changing so as to favor the integration of business enterprises into corporate endeavors. The country began to change from an agrarian one, in which agriculture predominated, to one with a growing urban population and a growing domestic market (Williamson, 1981, pp. 1564-1565).

## Three fundamental propositions

By way of summation of the fundamental propositions presented thus far highlighting the principle factors of evolutionary logics, three separate areas of inquiry have contributed to the understanding of the corporation. First, we propose that the corporate form of associational activity has been part of the history and evolution of the West, its society, economics, and politics. The form and function at any given time was determined by the constraints imposed on it by the political system and the resources available in each environment: financial resources, transportation technology, and the composition of markets. Davis has established a variety of enabling functions and variations within the form of organization from the Middle Ages. Hunt described the

Roman, Venetian, and British uses of corporate arrangements. Possibly the most significant of these for the development of the business corporation in America were the chartered and joint-stock companies of 16th- to 19th-century England. In effect, these forms laid the behavioral basis out of which grew the modern corporation.

Two selective mechanisms throughout this history have been the extent of the development of the state, its limitations and capabilities, and the pressures for the results of increased investment to meet the demands of more ambitious enterprises. The state stimulated and developed investors in the joint-stock companies, because the nature of the enterprises to be undertaken called for greater commitments of finances and other resources than had hitherto been the case. As the size of endeavors increased, the need for coordination became a critical internal selector in the direction of the modern corporation.

Second, we propose that the legal structure with its accompanying set of cultural values contributed to the development of the business corporation. In America, as in England during the 18th and 19th centuries, business corporations were chartered by legislative act in order to tie the functions of the group to the state and the perceived good of the public. Commerce was not the sole expression of the corporate form, nor was commercial activity the exclusive domain of corporations. Individual enterprise and partnerships dominated in America until well into the 19th century. But changes in the legal structure which permitted the "private" corporation to be distinguished from the "public" corporation and which granted limited liability to stockholders provided the enabling conditions for the rapid evolution of the modern business corporation.

Adding to these conditions, the cultural values that defended individual rights and protected the economy against monopolistic enterprise accompanied the correlated modifications in the legal system. Pressuring the specific response, demographic expansion and the availability of financing enhanced the survival capacity of companies, so that cultural norms and values, the legal structure, the financial sector, and demographics were factors that selected for a specific direction of change as the corporation adapted and evolved to exploit these resources.

Third, we propose that, given those resources in a free market system, the firm adapted quickly to become a more efficient instrument and safe investment that returned profit to investors. In effect, the firm's absorption of these market dynamics created pressure that resulted in positive feedback mechanisms, relating internal structure and functions to external conditions. Microeconomics explains the appearance of the firm in terms of the economic advantage it offers against the within the free market. At a macrostructural level, the firm has become an efficiency instrument for minimizing transaction costs and by so doing, has literally revolutionized the nature of free market enterprise.

In my opinion, this led to a dynamic of growth and expansion that Berle and Means, as stated earlier, posited as driving forces that accounted for the emergence of the firm. In fitness terms, we perceive these forces as positive feedback by the firm in relation to the overall emerging economic, political, and social system. The feedback process established and then reinforced the specific evolutionary direction of America business enterprise. Operationally, this meant unprecedented increases in productivity, a massive collectivization under corporate management of property devoted to production, dissociation of wealth from active management, unquenchable democratic pressure for greater distribution of wealth, and the continued assertion of competition, individualism, and the individual's right to choose and to consume.

The latter half of the 19th century saw a great proliferation of new corporations that emerged rather suddenly and had great impact on society. All of the aforementioned factors are elements that explain this new phenomenon. But the conditions of the 19th century add new features that need to be taken into account to fully explain the appearance and growth of corporate enterprise.

## THE CORPORATE REVOLUTION: 1850s TO 1900s

One of the most preeminent scholars of business history who has documented the emergence and transformation of American corporations is Alfred D. Chandler, Jr. Chandler's thesis has developed over the last thirty years, culminating in his major opus of 1990 (Chandler, 1990). For Chandler, the coming of big business in the West happened suddenly. Before the 1870s, very few large industrial enterprises existed. Shortly after World War I, big business had become the single most dominant nongovernmental institution.

The big business enterprise developed in industries and sectors of industry where technological progress allowed for the provisioning of goods and services in high volumes to large, geographically dispersed areas. Industry's expansion meant that salaried managers took over the economic functions that previously had been attributed to free market mechanisms. Managers came to control the flow and allocation of resources, scheduling, and supervision of operating units, and overall coordination. Thus, what Adam Smith had called the invisible hand of market regulation was substituted by the "visible hand of management" (Chandler, 1977). The modern business enterprise ushered in the age of managerial capitalism, a modified and transformed capitalism which challenged the assumptions of neoclassical economics and 19th century liberalism.

The two salient characteristics of the modern business enterprise are supplied by these observations. First, the modern enterprise is a multiunit organization.

It contains many operating units, each with its own administrative apparatus, function, product or service, and even perhaps geographical area. Each could operate as a distinct, or independent, business unit, in contrast to the traditional firm, which was a single-unit firm owned and operated by an individual or small group which operated out of the same office. Second, the modern business enterprise is supervised by a hierarchy of salaried managers who control the operating units and who represent a new kind of businessman.

The number of operating units determines the size of the managerial staff. Once entrepreneurs established organizations of considerable size, they had to take advantage of the cost benefit of new technologies of production. In order to do this, successful entrepreneurs made a three-part investment: investment in production facilities large enough to take advantage of scale; investment in national and/or international networks of marketing and distribution; and investment in managerial staffs (Chandler, 1990, p. 8).

But, Chandler goes further to argue that particular modern corporations have not survived over the long haul unless the addition of new units is cost effective, permitting management to reduce costs and to improve overall efficiency, including efficiency in the allocation of resources. The efficiency of internal operations is clearly a selection criterion. The modern business enterprise is an efficient instrument, maximizing the benefits of control of the flow of goods and services. When the maximization of the flow of goods and services suffers through lack of internal control or through inefficiency, the organization suffers.

## Chandler's Framework for Change, the Rise of the Corporation

The process by which business enterprises expanded occurred within a historical framework. It happened quickly. From the 1850s, when very few large, industrial enterprises existed, to 1900 when several large corporations rivaled government in scope of operations, business in America had been dramatically changed. Important sociocultural values, such as a particular brand of American individualism and a legal structure which had come to comprehend the collective use of private property under the concept of limited liability, had already become part of the American environment. Preferring not to offer a causal explanation, but rather, presenting distinctive dimensions of an interpretative framework, Chandler (1959, pp. 1-4; 990, p. 89) suggested that five factors need to be considered in the transformation of American business.[6]1

Demographic changes involving the westward expansion of population and growth of the urban centers on the East Coast form the background of this framework. The coming of the railroads and the establishment of national rail networks is the single most important factor in the analysis. The railroad networks contributed to the growth of the traditional urban centers such as

Philadelphia, New York, Cleveland, and Baltimore. As the railroads followed the population west, they helped create new urban centers, such as Kansas City, Dallas, Indianapolis, and even Chicago. This unusually rapid urbanization increased the demand for consumer products. The application of new sources of power, particularly the internal combustion engine and electricity, and the systematic application of science and technology to industrial processes contributed to the major restructuring of industry.

We maintain that these forces are part of a selective system that were exploited in the emergence and rapid proliferation of corporate enterprises. Chandler explained in some detail how these factors influenced the growth of business enterprises. Except for the railroads, most major industries in the 1870s served an agrarian economy. The leading firms processed agricultural products and provided goods to farmers. The firms tended to be small and bought raw materials locally. Prior to the dominance of rail transportation (and the need of the steel industries to provide materials to the railroads), most sectors of the iron and nonferrous metals industry concentrated on providing metals and simple tools to merchants and farmers. Some production was intended for textile and other manufacturers. The enterprises tended to be small in size and structure, and locally operated. Then, the railroads became the major market for iron and metals and they, in turn, opened a national market which became increasingly urban.

## Managerial Hierarchies: The Impact of the Railroads

The greater significance of the rail companies lies not only in the creation of the transportation infrastructure that dramatically reduced travel and transport time and costs, but also in the fact that the railroads became the first great managerial enterprise, the first modern industrial enterprise (Chandler, 197).[7] The expense involved in the creation of rail companies required financing. The coordination of scheduling, pricing, meeting arrival dates, accounting, and the details of transporting passengers required two and three levels of middle management.

What Chandler calls managerial hierarchies, one of the hallmarks of modern corporations, first appeared when the railroads began to operate more miles of track than could be operated by a single manager. The operating unit of the railroads was a geographic unit that controlled between 50 and 100 miles of track. These geographic units were divided into functional offices, each office being responsible for a single function, such as maintenance of track, movement of trains and scheduling, passenger traffic, freight, and even construction. With expansion and once two or more such geographic units had been established and operational, the role of managerial coordination became more crucial. With continued growth, the work of the online managers began to be monitored by centralized offices.

The innovation in rail management became the line and staff organization. Online supervisors took charge of the daily, functional operations of their units of responsibility. They, in turn, were monitored and supervised by higher-level managers in the central offices, and it was in the central offices that policy and decisions were debated and established.

For the most part, the railroads were originally smaller, local companies. Transporting across company lines demanded a high level of cooperation and coordination between firms. Well into the 1880s, rail companies competed heavily for traffic, but yet had managed to cooperate sufficiently in order to assure the efficient transport of freight over two or more companies lines. Standardization of gauge, of some basic equipment such as signals, and accounting procedures that allowed for intercompany billing were all consequences of new forms of organizational innovation.

Cooperation in the movement of freight and passengers across company lines did not lead to universal cooperation in reducing competitive cost cutting, although significant attempts are made to reduce costs and share profits. In the 1870s, railroads formed federations which functioned like cartels. They attempted to allocate traffic and pool profits, which were distributed on a ratio basis. But, fear of monopolistic arrangements on the part of the public and cheating on the agreements by rail executives saw to the short-lived existence of the federations.[8]

The next step in the transition of the railroads came with the backing of the financiers. In order to secure a continuous flow of traffic at reduced rates, a movement of consolidation through the buyout or construction of new lines was undertaken in the 1870s and 1880s. By the early 1890s 30 large self-sustaining systems had been built that owned and operated two-thirds of the rail mileage in the United States (1977, Table 3). The financing of these efforts came from Eastern banks and European investors. Financing had been removed from local individual investors who were also replaced on the boards of the new corporations.

The railroad companies thus became the first modern corporate enterprise, evolving in a very short time. They had all the elements of the modern corporate structure. The sheer size of these systems required several layers of management. Several online divisions, each with its own function and supervisor, were grouped together in geographical units. A general manager held responsibility for each of these units, and each manager, in turn, reported to the central office, where vice-presidents had oversight responsibility for the functional units. Top-level management decided on company strategy and goals and the allocation of resources to achieve the goals. Because the railroads relied on unparalleled amounts of investment from outside sources of finances—a new feature of commercial enterprise—representatives of the lending institutions frequently sat on the boards.

With the coming of the railroads and the advent of new communication networks with the telegraph, the way was set for the expansion of business

enterprise. As corporations grew and expanded, the organizational structure changed. The multidivisional firm came to prominence as corporations exploited external resources and internal enabling factors that shaped their growth and evolution.[9]

## CONCLUSIONS

This paper has presented a perspective on the evolution of the corporation that follows the model of natural selection. Unilinear models, such as the one presented by Hunt (1987), are erroneous. The natural selection model calls attention to the events, processes, information, and environmental contingencies that influence and shape the existence and survivability of sociocultural organizations. There are three requirements in this model: variation, selection, and retention. These three requirements depend on the successful exploitation of resources available in the environment that make a "niche," a "viable mode of living."

One selection criterion is a high rate of variation, either synchronically, across time, and/or across space. These types of variation have been presented. Some form of corporate activity is evident from the early empires to the joint-stock companies of Great Britain. Also, a great variety of functions as well as forms of corporate structure have been presented. Even today, variation exists in corporate structure, as Williamson (1986) outlined.

In America, the colonies' first political systems developed according to the pattern of the colonial companies. Individual merchants and entrepreneurs prevailed in trade and commerce. The corporations that were formed during the 18th and 19th centuries were chartered by the states. They functioned for the public good. In general, they were small enterprises whose activities directly related to public welfare: building bridges, canals, turnpikes, and so forth.

But the sociopolitical environment changed during the course of those years. Americans espoused the values of individualism and competition. Most important, a legal distinction between the private and public corporation developed. Further, the idea of the limited liability of incorporations gained a foothold in the legal structure. These developments were enabling factors that selected the specific evolutionary development of corporations.

Demographic factors also enabled the rapid development of corporations. During the 19th century, the westward migration of people and an expanding urban population created regional and local markets in which the need for consumer goods arose. Transportation and communications technologies, as well as an advanced financial sector, made possible the rapid emergence and development of commercial enterprises. The railroads were the first example of the new corporate enterprise and its multidivisional structure was quickly imitated.

Once this occurred, internal growth and expansion became a means to enhance survival capability. Taking advantage of the cost benefit to expansion was critical. Investment in distribution and marketing, product diversification, and horizontal and vertical integration were feedback that intensified growth. In this dynamic, managers gained operational control of the larger enterprises. Big business survives because it is a more efficient instrument for the minimizing of transaction costs as management coordinates the flow of goods and services. Internal coordination by salaried managers tends to the stability of an organization and is an internal selection criterion that has become repeated in all successful firms. Yet, an overgrown bureaucracy can lead to disbalance and disrupt growth, becoming a "black hole" for resources and assets.

That corporate organization has been retained in society can not be doubted. Corporations are one of the most dominant social institutions in America. They have become institutionalized ways of doing business. In sociocultural evolution, institutionalization is a primary retention mechanism.

My underlying thesis is that the business corporation is a part of culture, not just an instrument of the market. As such, cultural, political, and social processes, as well as market dynamics, shaped the specific evolutionary direction of corporations.

There are various dimensions in the sociocultural and political forces. First, the modern corporation, just as earlier forms of corporate organization, is made possible and legitimized by the state. The act of chartering in previous centuries guaranteed the legitimacy of the corporation. The contemporary state still claims its right to legitimize corporations and does so through its regulatory apparatus. There is still an explicit recognition that the functions of the corporation, voluntarily accepted, are ratified by the state.

Second, the evolution of the corporation has been most definitely influenced by cultural values. Individualism, competition, antistatism, and decentralism were all factors in the evolutionary direction of corporations in America—and they continue to be. The legal notion of "fictive personality" meant that the rights of the corporate entity could be defended and protected as the rights of any other individual in our society.

On the other hand, the regulation of corporations, once the utility inherent in chartering changed, became a right of government. Government and private corporations had their own authoritative domains. The relation between the corporation and the state and the concern for the public good has been a constant dimension of the American sociocultural and political system.

These assertions are extremely significant for research into the nature of corporate social responsibility and performance. The role and influence of values in shaping corporate structure and policy and the relationship of separate domains of authority are key integrative factors.

## An Evolutionary Synthesis

The recognition of separate domains of authority is the point of departure for my evolutionary synthesis. Separate spheres of influence exist independently but all form part of larger social and political contexts. They are not, in and of themselves, the beginning or the end of social life. Rather, the gradual recognition of separate power centers in the business-society relationship was but one aspect of the unfolding expression of the same process in society at large. It is a part of the ever-emerging dynamic of American civil society.

The notion of civil society has been used to describe the fabric of American life. Tocqueville (1968) admired the extent to which American society was predicated on the respect for both institutional life, communitarian ethics, and defense of the rights of individuals. The Marxist writer Gramsci (1971) so admired American civil society that he thought it should be imitated by other nations in order to respond to the social ills and injustices that industrialization was seen to have created.

The concept of civil society is a critical one for corporate activity and for understanding the trajectory of corporate evolution because it assumes some constant degree of freedom of the nongovernmental parts and sectors of society from government interference. Clearly, the notion of civil society grew out of the tenets of modern liberalism. It stipulates that the autonomy of individuals and the autonomy of areas of social life needs to be respected, and this for the sake of representational form of government. An impersonal structure of government, the importance of constitutional law to protect rights and guarantee a diversity of power centers in society, the importance of promoting competition and public debate are key pillars of civil society. One of the problems is whether the modern democratic state has been able to encourage the full participation of individuals and whether the state has been capable of creating an organizational force to adequately regulate all civil power centers.

What this means for business corporations is that the legitimacy of the whole political order, of which it is a part, is the result of the *interdependencies* between political, economic, and social institutions. Freedom of the parts implies interdependence, not total and complete independence. Freedom always implies responsibility. The legitimacy of civil society itself is the result of an ongoing process of negotiation and compromise, crucial to the effectiveness of parliamentary democracy and freedom for all the parts of society.

The tensions between the parts and the role of the state in treating diverse power centers within society have been part of the theoretical discussion presented in this paper, and part of the debate on corporate social responsibility. At times, the state has come to the defense of citizens against

the power of the corporations as in the eventual recognition of organized labor and the rather constant restraint of monopoly delineated in antitrust legislation.

On the other hand, the state's policy of defending the rights and the freedoms of business has been strongly felt in the course of history. The reluctance to grant the corporation a tax exemption for charitable contributions is an example of the state's defense of the purely economic nature of corporate functions. Thus, the freedom of economic interests to do business as an independent sector of society, with all of the baggage of rights implied by classic liberalism, has been an important premise in the debates on corporate responsibility, whether or not it is recognized by the participants in the debates.

The effects of that freedom and the concomitant concentration of wealth in the great business corporations, how their power and influence impinge on the other sectors of society and their rights, and the transformation of values that has occurred in American culture constitute another pillar of the dynamics of civil society.

This is so because civil society is made possible because of communitarian ethics and humanistic values. It sees society as made up of independent sectors, private and public, in which the intimate sector of family and community ties produces the bonds of solidarity in social relations and provides the moral background, the value system, for the functioning of the whole.

Bellah, Madsen, Sullivan, Swidler, and Tipton (1985) eloquently described this moral framework and explained how it has eroded during this century. Wolfe (1989), in a detailed and sophisticated comparison of capitalist and socialist economies, argued that the moral basis of both has been transformed due to the diffusion of the predominant social ethic of each social system. Both authors argued that for the sake of the future of American life, a return to the values of civil society is urgent.

We argue that the evolutionary trajectory of the business corporation will depend on the interaction of institutions within our society and the diffusion of values across organizational lines. The problem in America, as described by the Bellah and Wolfe books, is whether the ethic of the market, unrestrained self-interest, has so thoroughly penetrated all forms of social life that self-interest has replaced traditional ethics. We do not believe that the transformation is complete, but do argue that negotiation between the economic and its ethics, and government and other power centers in society is ongoing. The negotiations will depend on the diffusion of the values. The integration of values will either be a function of the market, and its instrument par excellence the corporation, or a function of the private and intimate sectors.

Therefore, we argue that there are three possible avenues of evolutionary development of the corporation with macrolevel implications. First, the values of the market will diffuse across organizational lines and penetrate most aspects of society. We will become a society in which market freedom is the moral

code for all social relations. Corporate leaders will engage society only if profitability is not negatively impacted.

The second possible avenue of evolutionary development is that market forces in society will decline because a humanization of the market and of the corporation is underway. There have been tremendous pressures placed on corporations from a variety of sources, including government. Social responsibilities are determined by society, not by corporate bottom lines. The task of corporations is to analyze society's demands and respond. This puts the moral character of corporate action on center stage. The values of leadership are key to predicting the success of the humanization of the market and for deciding corporate social policy.

The third possible avenue of evolutionary trajectory is that the separation of business and nonbusiness value orientation remains constant. Our sociopolitical system is a system of balances. The business-society relationship will retain that balance because it makes the whole system work.

All three possible avenues of development take into account the macrosocial processes as enabling factors. Market dynamics are simply not enough to explain corporate robustness. One key to unlocking the door to the evolutionary path is an understanding of the impact and influence of the values of corporate leaders themselves. Values are nothing more than permanent desires that have been formed by personal and social history. We have discovered a variety of motivational factors for executives' decisions on behalf of the social good. It has also been clearly stated that CEOs want their authoritative domain to be respected. The degree of independence they want to achieve still remains to be seen.

In conclusion, what is at stake in the business-society debate is the very foundational advantage of American civil society. To understand it, all of the processes need to be explicated. Social and cultural forces are influential, as are market principles and values. The American business corporation is part of culture. It always has been and will continue to be.

## NOTES

1. In the 1870s and thereafter, chartering became an important source of state revenues. State incorporation laws became more less restrictive as competition between states to attract corporations grew more intense. Examples are New Jersey and Delaware. Currently, Delaware dominates the incorporation market by tailoring laws to fit managements' desires. The return to the state comes in terms of franchise taxes and incorporation fees. It was not Delaware that initiated the active solicitation of corporation charters, but New Jersey, which fell into financial crisis in the period following 1875 (Grandy, 1989, pp. 677-692).

2. Fraser dedicated many pages to discussing the established church in Massachusetts as an example of a corporation whose clearly stated goal was the betterment and enrichment of the people. The early republican community perceived the necessity of inculcating the values and ideals of religion for the progress and welfare of society. But, the monopoly status of the Congregationalist

churches was eventually challenged and it lost its quality of established church of the colony. Preachers were considered members of the that "natural aristocracy." The corporate device was not exclusively commercial.

3. This presentation has thus far skirted the underlying assumptions common to the discussion of economic development in America, namely a dialogue with Adam Smith and John Locke on the question of the rights of individuals, property, individualism, and "economic man." Nevertheless, a comment is in order at this point. It is commonly understood that Adam Smith advocated a free enterprise system and that he advocated the pursuit of self-interest as a guarantor of the common interest, of the common good. But, Adam Smith envisioned the business enterprise as an effort of an individual or a partnership, not more than that. He used the concepts of private property, private enterprise, individual initiative, profit motive, and competition to argue that the self-interest of each individual, given free reign, would provide the optimum satisfaction of society's wants. "Very emphatically be repudiated the stock corporation as a business mechanism, holding that dispersed ownership made efficient operation impossible" (Berle & Means, 0. 304).

Berle and Means cite Smith: "The directors of such companies... being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. It is on this account that joint stock companies for foreign trade have seldom been able to maintain the competition against private adventurers. They have, accordingly, very seldom succeeded without an exclusive privilege, and frequently have not succeeded with one. Without an exclusive privilege they have commonly mismanaged the trade. With an exclusive privilege they have both mismanaged and confined it." (Berle & Means, p. 304; Smith, 1976, p. 229).

4. A further significance of this analysis in the fact that it led to many studies which challenged the neoclassical assumption of the profit maximization motive. Cyert and Hedrick (1972), Drucker (1972, 1989), Galbraith (1967), Simon and March (1958), and Williamson (1975, 1986).

5. Berle and Means document the gradual shift in management and the five forms it assumed. First, owners completely controlled their enterprises, then came majority control by owners, then legal devices—such as trusts—removing control one step further from ownership. Then came a minority control vested in boards of directors. Finally management was given actual, factual control of the business operations (Berle & Means, 1932, 66 ff.)

6. These five factors first suggested in 1959 have been refined into three by the 1990 publication. The central thesis has remained constant, the structure of business has evolved into a competitive managerial capitalism which itself has transformed the nature of capitalism and challenged neoclassical assumptions.

7. In *The Visible Hand,* especially chapters and three and four, Chandler outlines the organizational changes and history of the railroads in great detail. This section of this paper is taken from that description.

8. The Interstate Commerce Ct of 1887 made the cartels illegal. The agreements and policies reached by the federations were considered monopolistic control of transportation and commerce. Cartels became illegal; the trusts were soon to follow.

9. Williamson (1986) also offered a six-way classification scheme of corporate structures. The unitary form (U-form) is the traditional structure as discussed by Chandler. The holding company (H-form) is more of a legal devise than administrative structure. It is a divisionalized enterprise, such as United States Steel Corporation, in which internal control and coordination has not been the goal. The holding company is a corporation that holds stock in other incorporated enterprises. Divisions are subsidiaries of the parent company but operate independently of the other subsidiaries. The multidivisional form (M-form) is the structure that came to dominate enterprise

in America. Simply put, it separates operating from strategic decision-making functions and has fully developed and employed an internal managerial or control apparatus. Williamson offers two variants on the M-form, and adds a hybrid "X-Form" which means any combination of all the above, a combination which could occur because organizational structure is a consequence of both rational and chance processes. (1986, pp. 69-79).

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